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| PROPOSED FINANCIAL REPORTING STANDARD | ED/FRS |
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**Exposure Draft of Proposed
Improvements to
Financial Reporting Standards**

Comments to be received by 11 January 2008

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 11 January 2008, preferably by email to: MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry Of Finance
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The Treasury
Singapore 179434

DRAFT IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS

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| PROPOSED FINANCIAL REPORTING STANDARD | ED/FRS |
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First annual improvements project

Introduction

The Accounting Standards Council (ASC) presents this exposure draft of proposed amendments to Financial Reporting Standards (FRSs) as part of its first annual improvements project.

The objective of the annual improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to FRSs.

Structure of exposure draft

The exposure draft includes a chapter for each FRS for which an amendment is proposed. Each chapter includes:

- (a) an explanation of the proposed amendment;
- (b) an invitation to comment on the proposed amendment;
- (c) the paragraphs from the FRS or guidance that are affected by the proposed amendment; and
- (d) the basis for the ASC's conclusions in proposing the amendment.

Some of the proposed amendments affect more than one FRS, ie the proposed amendment involves consequential amendments to other FRSs. Those consequential amendments are contained in the respective chapters for the FRSs affected. However, the explanation of the proposed change and the invitation to comment are included only in the chapter for the FRS that is principally affected by the proposed amendment, not in the chapters of the FRSs for which consequential amendments are proposed.

Invitations to comment

The invitation to comment on each proposed amendment is contained in the chapter for the individual FRS that is principally affected. The ASC invites comments on the proposed amendments. It would particularly welcome answers to the questions in the respective chapters. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Respondents need not comment on all of the questions. The ASC is not requesting comments on matters in the FRSs not addressed in the exposure draft.

The ASC will consider all comments received in writing by 11 January 2008. In considering the comments, the ASC will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

FRSs addressed

The following FRSs are affected by the proposed amendments. Those FRSs that are affected by consequential proposed amendments are indicated.

| FRS | Subject of proposed amendment |
|--|---|
| FRS 101 <i>First-time Adoption of Financial Reporting Standards</i> | 1. Restructuring of FRS 1 |
| FRS 105 <i>Non-current Assets Held for Sale and Discontinued Operations</i> | 2. Plan to sell the controlling interest in a subsidiary Consequential amendment from FRS 41: Point-of-sale costs |
| FRS 107 <i>Financial Instruments: Disclosures</i> | 3. Presentation of finance costs Consequential amendment from FRS 28 and FRS 31: Disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss |
| FRS 1 <i>Presentation of Financial Statements</i> | 4. Statement of compliance with FRSs 5. Current/non-current classification of convertible instruments 6. Current/non-current classification of derivatives |
| FRS 2 <i>Inventories</i> | Consequential amendment from FRS 41: Point-of-sale costs |
| FRS 7 <i>Statement of Cash Flows</i> | Consequential amendment from FRS 16: Sale of assets held for rental |
| FRS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> | 7. Status of implementation guidance |
| FRS 10 <i>Events after the Reporting Period</i> | 8. Dividends declared after the end of the reporting period |
| FRS 16 <i>Property, Plant and Equipment</i> | 9. Recoverable amount 10. Sale of assets held for rental Consequential amendment from FRS 40: Property under construction or development for future use as investment property |
| FRS 17 <i>Leases</i> | 11. Classification of leases of land and buildings 12. Contingent rents |
| FRS 18 <i>Revenue</i> | 13. Costs of originating a loan |
| FRS 19 <i>Employee Benefits</i> | 14. Curtailments and negative past service cost 15. Plan administration costs 16. Replacement of term 'fall due' 17. Guidance on contingent liabilities |
| FRS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> | 18. Consistency of terminology with other FRSs 19. Government loans with a below-market rate of interest |
| FRS 23 <i>Borrowing Costs</i> | 20. Components of borrowing costs |
| FRS 27 <i>Consolidated and Separate Financial Statements</i> | 21. Measurement of subsidiary held for sale in separate financial statements |
| FRS 28 <i>Investments in Associates</i> | 22. Required disclosures when investments in associates are accounted for at fair value through profit or loss 23. Impairment of investment in associate |

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| FRS 29 <i>Financial Reporting in Hyperinflationary Economies</i> | 24. Consistency of terminology with other FRSs |
| FRS 31 <i>Interests in Joint Ventures</i> | 25. Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss |
| FRS 32 <i>Financial Instruments: Presentation</i> | Consequential amendment from FRS 28 and FRS 31: Required disclosures when investments in associates and interests in jointly controlled entities are accounted for at fair value through profit or loss |
| FRS 34 <i>Interim Financial Reporting</i> | 26. Earnings per share disclosures in interim financial reports |
| FRS 36 <i>Impairment of Assets</i> | 27. Disclosure of estimates used to determine recoverable amount |
| | Consequential amendment from FRS 41: Point-of-sale costs |
| FRS 38 <i>Intangible Assets</i> | 28. Advertising and promotional activities |
| | 29. Unit of production method of amortisation |
| FRS 39 <i>Financial Instruments: Recognition and Measurement</i> | 30. Definition of a derivative |
| | 31. Reclassification of financial instruments into or out of the classification of at fair value through profit or loss |
| | 32. Designating and documenting hedges at the segment level |
| | 33. Applicable effective interest rate on cessation of fair value hedge accounting |
| | 34. Treating loan prepayment penalties as closely related embedded derivatives |
| FRS 40 <i>Investment Property</i> | 35. Property under construction or development for future use as investment property |
| | 36. Consistency of terminology with FRS 8 |
| | 37. Investment property held under lease |
| FRS 41 <i>Agriculture</i> | 38. Point-of-sale costs |
| | 39. Discount rate for fair value calculations |
| | 40. Additional biological transformation |
| | 41. Examples of agricultural produce and products |
| | Consequential amendment from FRS 20: Consistency of terminology with other FRSs |

Proposed implementation and effective date

The ASC proposes that the amendments, if confirmed, should be effective for annual periods beginning on or after 1 January 2009. The ASC proposes to permit early application of the amendments provided that:

- (a) all of the proposed amendments from the first annual improvements project; and
- (b) FRS 1 *Presentation of Financial Statements* (as revised in 2007)

are applied for the same period.

Proposed amendments to Financial Reporting Standard 101 *First-time Adoption of Financial Reporting Standards*

Introduction and invitation to comment

Restructuring of FRS 101

The ASC proposes to restructure FRS 101 *First-time Adoption of Financial Reporting Standards*. The main change proposed is to remove some transitional provisions relating to particular FRSs from the main body of the FRS to appendices.

The restructuring will not alter the technical content of FRS 101. However, some transitional provisions have been removed as they are no longer relevant.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the question below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 101 not addressed in the exposure draft.

Question 1

Do you agree with the ASC's proposed restructuring of FRS 101? If not, why?

Proposed amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*

The main body of the FRS is presented with amendments marked (new text is underlined and deleted text is struck through). Paragraphs that have been moved are described accordingly. Paragraphs that have been deleted are described accordingly and their text struck through. Paragraph references within the text have been updated without being marked.

Financial Reporting Standard 101 *First-time Adoption of Financial Reporting Standards*

Objective

- 1 The objective of this FRS is to ensure that an entity's *first FRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
 - (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting ~~under~~ in accordance with *Financial Reporting Standards (FRSs)*; and
 - (c) can be generated at a cost that does not exceed the benefits to users.

Scope

- 2 An entity shall apply this FRS in:
 - (a) its first FRS financial statements; and
 - (b) each interim financial report, if any, that it presents ~~under~~ in accordance with FRS 34 *Interim Financial Reporting* for part of the period covered by its first FRS financial statements.
- 3 An entity's first FRS financial statements are the first annual financial statements in which the entity adopts FRSs, by an explicit and unreserved statement in those financial statements of compliance with FRSs. Financial statements ~~under~~ in accordance with FRSs are an entity's first FRS financial statements if, for example, the entity:
 - (a) presented its most recent previous financial statements:
 - (i) ~~under~~ in accordance with national requirements that are not consistent with FRSs in all respects;
 - (ii) in conformity with FRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with FRSs;
 - (iii) containing an explicit statement of compliance with some, but not all, FRSs;
 - (iv) ~~under~~ in accordance with national requirements inconsistent with FRSs, using some individual FRSs to account for items for which national requirements did not exist; or
 - (v) ~~under~~ in accordance with national requirements, with a reconciliation of some

amounts to the amounts determined ~~under~~ in accordance with FRSs;

- (b) prepared financial statements ~~under~~ in accordance with FRSs for internal use only, without making them available to the entity's owners or any other external users;
 - (c) prepared a reporting package ~~under~~ in accordance with FRSs for consolidation purposes without preparing a complete set of financial statements as defined in FRS 1 *Presentation of Financial Statements* (as revised in 2007); or
 - (d) did not present financial statements for previous periods.
- 4 This FRS applies when an entity first adopts FRSs. It does not apply when, for example, an entity:
- (a) stops presenting financial statements ~~under~~ in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with FRSs;
 - (b) presented financial statements in the previous year ~~under~~ in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with FRSs; or
 - (c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with FRSs, even if the auditors qualified their audit report on those financial statements.
- 5 This FRS does not apply to changes in accounting policies made by an entity that already applies FRSs. Such changes are the subject of:
- (a) requirements on changes in accounting policies in FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) specific transitional requirements in other FRSs.

Recognition and measurement

Opening FRS statement of financial position

- 6 An entity shall prepare and present *an opening FRS statement of financial position* at the *date of transition to FRSs*. This is the starting point for its accounting ~~under~~ in accordance with FRSs.

Accounting policies

- 7 **An entity shall use the same accounting policies in its opening FRS statement of financial position and throughout all periods presented in its first FRS financial statements. Those accounting policies shall comply with each FRS effective at the end of its *first FRS reporting period*, except as specified in paragraphs 13–17 and Appendices B–E.**
- 8 An entity shall not apply different versions of FRSs that were effective at earlier dates. An entity may apply a new FRS that is not yet mandatory if that FRS # permits early application.

Example: Consistent application of latest version of FRSs

Background

The end of entity A's first FRS reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to FRSs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements ~~under~~ in accordance with its *previous GAAP* annually to 31 December each year up to, and including, 31 December 20X4.

Application of requirements

Entity A is required to apply the FRSs effective for periods ending on 31 December 20X5 in:

- (a) preparing and presenting its opening FRS statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new FRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that FRS in its first FRS financial statements.

- 9 The transitional provisions in other FRSs apply to changes in accounting policies made by an entity that already uses FRSs; they do not apply to a *first-time adopter's* transition to FRSs, except as specified in Appendices B–E.
- 10 Except as described in paragraphs 13–17 and Appendices B–E, an entity shall, in its opening FRS statement of financial position:
 - (a) recognise all assets and liabilities whose recognition is required by FRSs;
 - (b) not recognise items as assets or liabilities if FRSs do not permit such recognition;
 - (c) reclassify items that it recognised ~~under~~ in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity ~~under~~ in accordance with FRSs; and
 - (d) apply FRSs in measuring all recognised assets and liabilities.
- 11 The accounting policies that an entity uses in its opening FRS statement of financial position may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to FRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to FRSs.
- 12 This FRS establishes two categories of exceptions to the principle that an entity's opening FRS statement of financial position shall comply with each FRS:
 - (a) Appendix B prohibits retrospective application of some aspects of other FRSs. [previously paragraph 12(b)]
 - (b) Appendices C-E grant exemptions from some requirements of other FRSs. [previously paragraph 12(a)]

Exceptions to retrospective application of other FRSs

- 13 This FRS prohibits retrospective application of some aspects of other FRSs. These exceptions are contained in paragraphs 14–17 and Appendix B, relating to:
- (a) ~~derecognition of financial assets and financial liabilities (paragraphs 27 and 27A);~~
 - (b) ~~hedge accounting (paragraphs 28–30);~~
 - (c) ~~estimates (paragraphs 31–34); and~~
 - (d) ~~assets classified as held for sale and discontinued operations (paragraphs 34A and 34B).~~

[previously paragraph 26]

Estimates

- 14 **An entity's estimates under in accordance with FRSs at the date of transition to FRSs shall be consistent with estimates made for the same date under in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.** [previously paragraph 31]
- 15 An entity may receive information after the date of transition to FRSs about estimates that it had made under in accordance with previous GAAP. ~~Under In accordance with~~ paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period under in accordance with FRS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to FRSs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made under in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening FRS statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in its profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4. [previously paragraph 32]
- 16 An entity may need to make estimates under in accordance with FRSs at the date of transition to FRSs that were not required at that date under in accordance with previous GAAP. To achieve consistency with FRS 10, those estimates under in accordance with FRSs shall reflect conditions that existed at the date of transition to FRSs. In particular, estimates at the date of transition to FRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. [previously paragraph 33]
- 17 Paragraphs 14–16 apply to the opening FRS statement of financial position. They also apply to a comparative period presented in an entity's first FRS financial statements, in which case the references to the date of transition to FRSs are replaced by references to the end of that comparative period. [previously paragraph 34]

Exemptions from other FRSs

- 18 An entity may elect to use one or more of the ~~following~~ exemptions contained in Appendices C–E.:
- (a) ~~business combinations (paragraph 15);~~
 - (b) ~~fair value or revaluation as deemed cost (paragraphs 16–19);~~
 - (c) ~~employee benefits (paragraphs 20 and 20A);~~

- (d) ~~cumulative translation differences (paragraphs 21 and 22);~~
- (e) ~~compound financial instruments (paragraph 23);~~
- (f) ~~assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 24 and 25);~~
- (g) ~~designation of previously recognised financial instruments (paragraph 25A);~~
- (h) ~~share based payment transactions (paragraphs 25B and 25C);~~
- (i) ~~insurance contracts (paragraph 25D);~~
- (j) ~~decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E);~~
- (k) ~~leases (paragraph 25F);~~
- (l) ~~fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G); and~~
- (m) ~~a financial asset or an intangible asset accounted for in accordance with INT FRS 112 *Service Concession Arrangements* (paragraph 25H);~~
- (n) ~~borrowing costs (paragraph 25I).~~

An entity shall not apply these exemptions by analogy to other items. [previously paragraph 13]

- 19 Some exemptions ~~below~~ in Appendices C–E refer to *fair value*. FRS 103 *Business Combinations* explains how to determine the fair values of identifiable assets and liabilities acquired in a business combination. An entity shall apply those explanations in determining fair values ~~under~~ in accordance with this FRS, unless another FRS contains more specific guidance on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined. [previously paragraph 14]

~~Assets classified as held for sale and discontinued operations~~

- 34A [paragraph removed] ~~FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* requires that it shall be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of FRS 105. FRS 105 permits an entity to apply the requirements of the FRS to all non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after any date before the effective date of the FRS, provided the valuations and other information needed to apply the FRS were obtained at the time these criteria were originally met.~~
- 34B [paragraph removed] ~~An entity with a date of transition to FRSs before 1 January 2005 shall apply the transitional provisions of FRS 105. An entity with a date of transition to FRSs on or after 1 January 2005 shall apply FRS 105 retrospectively.~~

Presentation and disclosure

- 20 ~~Except as described in paragraphs 36A–37, t~~ This FRS does not provide exemptions from the presentation and disclosure requirements in other FRSs. [previously paragraph 35]

Comparative information

- 21 To comply with FRS 1, an entity's first FRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information. [previously paragraph 36]
- 36A [Deleted]
- 36B [Deleted]
- 36C [Deleted]

Non-FRS comparative information and historical summaries

- 22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information ~~under in accordance with~~ FRSs. This FRS does not require such summaries to comply with the recognition and measurement requirements of FRSs. Furthermore, some entities present comparative information ~~under in accordance with~~ previous GAAP as well as the comparative information required by FRS 1. In any financial statements containing historical summaries or comparative information ~~under in accordance with~~ previous GAAP, an entity shall:
- (a) label the previous GAAP information prominently as not being prepared ~~under in accordance with~~ FRSs; and
 - (b) disclose the nature of the main adjustments that would make it comply with FRSs. An entity need not quantify those adjustments. [previously paragraph 37]

Explanation of transition to FRSs

- 23 **An entity shall explain how the transition from previous GAAP to FRSs affected its reported financial position, financial performance and cash flows.** [previously paragraph 38]

Reconciliations

- 24 To comply with paragraph 23, an entity's first FRS financial statements shall include:
- (a) reconciliations of its equity reported ~~under in accordance with~~ previous GAAP to its equity ~~under in accordance with~~ FRSs for both of the following dates:
 - (i) the date of transition to FRSs; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements ~~under in accordance with~~ previous GAAP.
 - (b) a reconciliation to its total comprehensive income under FRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income ~~under in accordance with~~ previous GAAP for the same period or, if an entity did not report such a total, profit or loss ~~under in accordance with~~ previous GAAP.
 - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening FRS statement of financial position, the disclosures that FRS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to

FRSs. [previously paragraph 39]

- 25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows. [previously paragraph 40]
- 26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies. [previously paragraph 41]
- 27 FRS 8 does not deal with changes in accounting policies that occur when an entity first adopts FRSs. Therefore, FRS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first FRS financial statements. [previously paragraph 42]
- 28 If an entity did not present financial statements for previous periods, its first FRS financial statements shall disclose that fact. [previously paragraph 43]

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with Appendix D paragraph D17. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements. [previously paragraph 43A]

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening FRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset (see Appendix D paragraphs D2 and D4), the entity's first FRS financial statements shall disclose, for each line item in the opening FRS statement of financial position:
- (a) the aggregate of those fair values; and
 - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP. [previously paragraph 44]

Interim financial reports

- 31 To comply with paragraph 23, if an entity presents an interim financial report ~~under~~ in accordance with FRS 34 for part of the period covered by its first FRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of FRS 34:
- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity ~~under~~ in accordance with previous GAAP at the end of that comparable interim period to its equity ~~under~~ in accordance with FRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income ~~under~~ in accordance with FRSs for that comparable interim period (current and year-to-date). The starting point for that reconciliation shall be total comprehensive income ~~under~~ in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss ~~under~~ in accordance with previous GAAP.

- (b) In addition to the reconciliations required by (a), an entity's first interim financial report ~~under in accordance with~~ FRS 34 for part of the period covered by its first FRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations. [previously paragraph 45]

- 32 FRS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, FRS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it. [previously paragraph 46]

Effective date

- 33 An entity shall apply this FRS if its first FRS financial statements are for a period beginning on or after 1 January 2009⁴. Earlier application is permitted. If an entity applies this FRS for an earlier period it shall disclose that fact and apply:

- (a) the amendments to other FRSs introduced by the first annual improvements project; and

- (b) FRS 1 *Presentation of Financial Statements* (as revised in 2007)

~~for that earlier period. Earlier application is encouraged. If an entity's first FRS financial statements are for a period beginning before 1 January 2004 and the entity applies this FRS instead of INT FRS 8 *First-time Application of FRSs as the Primary Basis of Accounting*, it shall disclose that fact.~~ [previously paragraph 47]

- 47A [paragraph removed] ~~An entity shall apply the amendments in paragraphs 13(j) and 25E for annual periods beginning on or after 1 September 2004. If an entity applies INT FRS 1 for an earlier period, these amendments shall be applied for that earlier period.~~

- 47B [paragraph removed] ~~An entity shall apply the amendments in paragraphs 13(k) and 25F for annual periods beginning on or after 1 January 2006. If an entity applies INT FRS 4 for an earlier period, these amendments shall be applied for that earlier period.~~

- 47C [Deleted]

- 47D [paragraph removed] ~~An entity shall apply the amendments in paragraph 20A for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to FRS 19 *Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures* for an earlier period, these amendments shall be applied for that earlier period.~~

- 47E [paragraph removed] ~~An entity shall apply the amendments in paragraphs 13(l) and 25G for annual periods beginning on or after 1 January 2005. If an entity applies the amendments to FRS 39 *Financial Instruments: Recognition and Measurement—Transition and Initial Recognition of Financial Assets and Financial Liabilities* for an earlier period, these amendments shall be applied for that earlier period.~~

- 47F [paragraph removed] ~~An entity shall apply the amendments in paragraphs 9, 12(a), 13(m) and 25H for annual periods beginning on or after 1 January 2008. If an entity applies INT FRS 112 for an earlier period, these amendments shall be applied for that earlier period.~~

- 47G [paragraph removed] ~~An entity shall apply the amendments in paragraphs 13(n) and 25I for annual periods beginning on or after 1 January 2009. If an entity applies FRS 23 for an~~

~~earlier period, these amendments shall be applied for that earlier period.~~

47H ~~[paragraph removed] FRS 1 (as revised in 2007) amended the terminology used throughout FRSs. In addition it amended paragraphs 6, 7, 8 (Example), 10, 12(a), 21, 32, 35, 36, 39(b) and 45(a), Appendix A and paragraph B2(i) in Appendix B, and deleted paragraphs 36A–36C and 47C. If an entity applies FRS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.~~

Withdrawal of FRS 1 (issued 2003)

34 This [draft] FRS supersedes FRS 101 (issued in 2003).

Appendix A

Defined terms

This appendix is an integral part of the FRS.

| | |
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| date of transition to FRSs | The beginning of the earliest period for which an entity presents full comparative information under <u>in</u> accordance with FRSs in its first FRS financial statements . |
| deemed cost | An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost. |
| fair value | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. |
| first FRS financial statements | The first annual financial statements in which an entity adopts Financial Reporting Standards (FRSs) , by an explicit and unreserved statement of compliance with FRSs. |
| first FRS reporting period | The latest reporting period covered by an entity's first FRS financial statements . |
| first-time adopter | An entity that presents its first FRS financial statements . |
| Financial Reporting Standards (FRSs) | Standards and Interpretations adopted by the Council on Corporate Disclosure and Governance (CCDG). They comprise: <ul style="list-style-type: none"> (a) Financial Reporting Standards; and (b) Interpretations of Financial Reporting StandardsBoard. |
| opening FRS statement of financial position | An entity's statement of financial position at the date of transition to FRSs . |
| previous GAAP | The basis of accounting that a first-time adopter used immediately before adopting FRSs. |

The text of the previous Appendix B is moved to Appendix C.

Except where specified, all text below is new. Text that is described as being moved from another part of the FRS is presented with amendments marked (new text is underlined, deleted text is struck through). Paragraph references within the text have been updated without being marked.

Appendix B

Exceptions to the mandatory application of FRSs retrospectively

This appendix is an integral part of the FRS.

B1 An entity shall apply the following exceptions:

- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3); and
- (b) hedge accounting (paragraphs B4–B6).

Derecognition of financial assets and financial liabilities

B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in FRS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after 1 January 2004. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities ~~under~~ in accordance with its previous GAAP as a result of a transaction that occurred before 1 January 2004, it shall not recognise those assets and liabilities ~~under~~ in accordance with FRSs (unless they qualify for recognition as a result of a later transaction or event). [previously paragraph 27]

B3 Notwithstanding paragraph B2, an entity may apply the derecognition requirements in FRS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply FRS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions. [previously paragraph 27A]

Hedge accounting

B4 As required by FRS 39, at the date of transition to FRSs, an entity shall:

- (a) measure all derivatives at fair value; and
- (b) eliminate all deferred losses and gains arising on derivatives that were reported ~~under~~ in accordance with previous GAAP as if they were assets or liabilities. [previously paragraph 28]

B5 An entity shall not reflect in its opening FRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting ~~under~~ in accordance with FRS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item ~~under~~ in accordance with FRSs, provided that it does so no later than the date of transition to FRSs. [previously paragraph 29]

B6 If, before the date of transition to FRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in FRS 39 the entity shall apply paragraphs 91 and 101 of FRS 39 ~~(as revised in 2003)~~ to discontinue hedge accounting.

Transactions entered into before the date of transition to FRSs shall not be retrospectively designated as hedges. [previously paragraph 30]

The text of Appendix C was previously contained in Appendix B.

Appendix C is presented with amendments marked (new text is underlined, deleted text is struck through). Paragraph references within the text have been updated without being marked.

Appendix ~~B~~C

Exemptions for ~~B~~business combinations

This appendix is an integral part of the FRS. An entity shall apply the following requirements ~~in Appendix B~~ to business combinations that the entity recognised before the date of transition to FRSs. [previously paragraph 15]

- C1 A first-time adopter may elect not to apply FRS 103 ~~Business Combinations~~ retrospectively to past business combinations (business combinations that occurred before the date of transition to FRSs). However, if a first-time adopter restates any business combination to comply with FRS 103, it shall restate all later business combinations and shall also apply FRS 36 ~~Impairment of Assets (as revised in 2004)~~ and FRS 38 ~~Intangible Assets (as revised in 2004)~~ from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002~~7~~, it shall restate all business combinations that occurred between 30 June 2002~~7~~ and the date of transition to FRSs, and it shall also apply FRS 36 ~~(as revised in 2004)~~ and FRS 38 ~~(as revised in 2004)~~ from 30 June 2002~~7~~. [previously paragraph B1 of Appendix B]
- C2 An entity need not apply FRS 21 *The Effects of Changes in Foreign Exchange Rates* ~~(as revised in 2003)~~ retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to FRSs. If the entity does not apply FRS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied ~~under~~ in accordance with previous GAAP. [previously paragraph B1A of Appendix B]
- C3 An entity may apply FRS 21 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to FRSs; or
 - (b) all business combinations that the entity elects to restate to comply with FRS 103, as permitted by paragraph C1 above. [previously paragraph B1B of Appendix B]
- C4 If a first-time adopter does not apply FRS 103 retrospectively to a past business combination, this has the following consequences for that business combination:
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.
 - (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to FRSs that were acquired or assumed in a past business combination, other than:
 - (i) some financial assets and financial liabilities derecognised ~~under~~ in accordance with previous GAAP (see paragraph B2); and
 - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position ~~under~~ in accordance

with previous GAAP and also would not qualify for recognition ~~under~~ in accordance with FRSs in the separate statement of financial position of the acquiree (see paragraph C4(f)–(i)).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see paragraph C4(g)(i)).

- (c) The first-time adopter shall exclude from its opening FRS statement of financial position any item recognised ~~under~~ in accordance with previous GAAP that does not qualify for recognition as an asset or liability ~~under~~ in accordance with FRSs. The first-time adopter shall account for the resulting change as follows:
- (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset ~~under~~ in accordance with FRS 38. It shall reclassify that item (and, if any, the related deferred tax and minority interests) as part of goodwill (unless it deducted goodwill directly from equity ~~under~~ in accordance with previous GAAP, see paragraph C4(g)(i) and C4(i)).
 - (ii) the first-time adopter shall recognise all other resulting changes in retained earnings.
- (d) FRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening FRS statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.
- (e) Immediately after the business combination, the carrying amount under in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost ~~under~~ in accordance with FRSs at that date. If FRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised ~~under~~ in accordance with previous GAAP, it does not have a deemed cost of zero in the opening FRS statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that FRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, under in accordance with its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as FRS 17 *Leases* would require the acquiree to do in its FRS statement of financial position. Conversely, if an asset or liability was subsumed in goodwill ~~under~~ in accordance with previous GAAP but would have been recognised separately ~~under~~ in accordance with FRS 103, that asset or liability remains in goodwill unless FRSs would require its recognition in the financial statements of the acquiree.
- (g) The carrying amount of goodwill in the opening FRS statement of financial position shall be its carrying amount ~~under~~ in accordance with previous GAAP at the date of transition to FRSs, after the following three adjustments:
- (i) If required by paragraph C4(c)(i) above, the first-time adopter shall increase

* Such changes include reclassifications from or to intangible assets if goodwill was not recognised under previous GAAP as an asset. This arises if, under previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset ~~under in accordance with~~ previous GAAP. Similarly, if paragraph C4(f) requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill ~~under in accordance with~~ previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and minority interests).

- (ii) A contingency affecting the amount of the purchase consideration for a past business combination may have been resolved before the date of transition to FRSs. If a reliable estimate of the contingent adjustment can be made and its payment is probable, the first-time adopter shall adjust the goodwill by that amount. Similarly, the first-time adopter shall adjust the carrying amount of goodwill if a previously recognised contingent adjustment can no longer be measured reliably or its payment is no longer probable.
 - (iii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply FRS 36 in testing the goodwill for impairment at the date of transition to FRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by FRS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to FRSs.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to FRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:
- (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition under in accordance with FRS 38 in the statement of financial position of the acquiree);
 - (ii) to adjust previous amortisation of goodwill;
 - (iii) to reverse adjustments to goodwill that FRS 103 would not permit, but were made ~~under in accordance with~~ previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to FRSs.
- (i) If the first-time adopter recognised goodwill ~~under in accordance with~~ previous GAAP as a deduction from equity:
- (i) it shall not recognise that goodwill in its opening FRS statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
 - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.
- (j) ~~Under In accordance with~~ its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary ~~under in accordance with~~ previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that FRSs would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to FRSs between:
- (i) the parent's interest in those adjusted carrying amounts; and

- (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
 - (k) The measurement of minority interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect minority interests and deferred tax. [previously paragraph B2 of Appendix B]
- C5 The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions. [previously paragraph B3 of Appendix B]

The text of Appendix D replaces Appendix C.

Except where specified, all text below is new. Text that is described as being moved from another part of the FRS is presented with amendments marked (new text is underlined, deleted text is struck through). Paragraph references within the text have been updated without being marked.

Appendix ~~C~~D

~~Amendments to other FRSs~~ Exemptions from other FRSs

~~The amendments in this appendix become effective for annual financial statements covering periods beginning on or after 1 January 2004. If an entity applies this FRS for an earlier period, these amendments become effective for that earlier period.~~

~~*****~~

~~The amendments contained in this appendix when this Standard was issued in 2003 have been incorporated into the relevant pronouncements published in this volume. This appendix is an integral part of the FRS.~~

- D1 An entity may apply one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) insurance contracts (paragraph D4);
 - (c) fair value or revaluation as deemed cost (paragraphs D5–D8);
 - (d) leases (paragraph D9);
 - (e) employee benefits (paragraphs D10 and D11);
 - (f) cumulative translation differences (paragraphs D12 and D13);
 - (g) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs D14 and D15);
 - (h) compound financial instruments (paragraph D16);
 - (i) designation of previously recognised financial instruments (paragraph D17);
 - (j) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph D18);
 - (k) decommissioning liabilities included in the cost of property, plant and equipment (paragraph D19);
 - (l) a financial asset or an intangible asset accounted for in accordance with INT FRS 112 *Service Concession Arrangements* (paragraph D20); and
 - (m) borrowing costs (paragraph D21).

An entity shall not apply these exemptions by analogy to other items.

Share-based payment transactions

- D2 A first-time adopter is encouraged, but not required, to apply FRS 102 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002. A first-time adopter is

also encouraged, but not required, to apply FRS 102 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to FRSs and (b) 1 January 2005. However, if a first-time adopter elects to apply FRS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in FRS 102. For all grants of equity instruments to which FRS 102 has not been applied (eg equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of FRS 102. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which FRS 102 has not been applied, the entity is not required to apply paragraphs 26–29 of FRS 102 if the modification occurred before the later of (a) the date of transition to FRSs and (b) 1 January 2005. [previously paragraph 25B]

- D3 A first-time adopter is encouraged, but not required, to apply FRS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to FRSs. A first-time adopter is also encouraged, but not required, to apply FRS 102 to liabilities that were settled before 1 January 2005. For liabilities to which FRS 102 is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002. [previously paragraph 25C]

Insurance contracts

- D4 A first-time adopter may apply the transitional provisions in FRS 104 *Insurance Contracts*. FRS 104 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter. [previously paragraph 25D]

Fair value or revaluation as deemed cost

- D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to FRSs at its fair value and use that fair value as its deemed cost at that date. [previously paragraph 16]
- D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to FRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) fair value; or
 - (b) cost or depreciated cost ~~under~~ in accordance with FRSs, adjusted to reflect, for example, changes in a general or specific price index. [previously paragraph 17]
- D7 The elections in paragraphs D5 and D6 are also available for:
- (a) investment property, if an entity elects to use the cost model in FRS 40 *Investment Property*; and
 - (b) intangible assets that meet:
 - (i) the recognition criteria in FRS 38 ~~*Intangible Assets*~~ (including reliable measurement of original cost); and
 - (ii) the criteria in FRS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities. [previously paragraph 18]

- D8 A first-time adopter may have established a deemed cost ~~under~~ in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. It may use

such event-driven fair value measurements as deemed cost for FRSs at the date of that measurement. [previously paragraph 19]

Leases

- D9 A first-time adopter may apply the transitional provisions in INT FRS 104 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to FRSs contains a lease on the basis of facts and circumstances existing at that date. [previously paragraph 25F]

Employee benefits

- D10 ~~Under~~ In accordance with FRS 19 *Employee Benefits*, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to FRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to FRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans. [previously paragraph 20]
- D11 An entity may disclose the amounts required by paragraph 120A(p) of FRS 19 as the amounts are determined for each accounting period prospectively from the date of transition to FRSs. [previously paragraph 20A]

Cumulative translation differences

- D12 FRS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity:
- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
 - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal. [previously paragraph 21]
- D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to FRSs. If a first-time adopter uses this exemption:
- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to FRSs; and
 - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to FRSs and shall include later translation differences. [previously paragraph 22]

Assets and liabilities of subsidiaries, associates and joint ventures

- D14 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to FRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
 - (b) the carrying amounts required by the rest of this FRS, based on the subsidiary's date

of transition to FRSs. These carrying amounts could differ from those described in (a):

- (i) when the exemptions in this FRS result in measurements that depend on the date of transition to FRSs.
- (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in FRS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it. [previously paragraph 24]

- D15 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments. [previously paragraph 25]

Compound financial instruments

- D16 FRS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of FRS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, ~~under in accordance with~~ this FRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to FRSs. [previously paragraph 23]

Designation of previously recognised financial instruments

- D17 FRS 39 ~~*Financial Instruments: Recognition and Measurement*~~ permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:
- (a) any entity is permitted to make an available-for-sale designation at the date of transition to FRSs.
 - (b) ~~an entity that presents its first FRS financial statements for an annual period beginning on or after 1 September 2006~~ such an entity is permitted to designate, at the date of transition to FRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of FRS 39 at that date.
 - (c) ~~an entity that presents its first FRS financial statements for an annual period beginning on or after 1 January 2006 and before 1 September 2006~~ such an entity is permitted to designate, at the date of transition to FRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of FRS 39 at that date. When the date of transition to FRSs is before 1 September 2005, such designations need

~~not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the date of transition to FRSs and 1 September 2005.~~

- (d) ~~an entity that presents its first FRS financial statements for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the 2005 amendments in paragraphs 9, 12 and 13 of FRS 39 such an entity is permitted at the start of its first FRS reporting period to designate as at fair value through profit or loss any financial asset or financial liability that qualifies for such designation in accordance with these new and amended paragraphs at that date. When the entity's first FRS reporting period begins before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the beginning of that period and 1 September 2005. If the entity restates comparative information for FRS39 it shall restate that information for the financial assets, financial liabilities, or group of financial assets, financial liabilities or both, designated at the start of its first FRS reporting period. Such restatement of comparative information shall be made only if the designated items or groups would have met the criteria for such designation in paragraph 9(b)(i), 9(b)(ii) or 11A of FRS 39 at the date of transition to FRSs or, if acquired after the date of transition to FRSs, would have met the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A at the date of initial recognition.~~
- (e) ~~for an entity that presents its first FRS financial statements for an annual period beginning before 1 September 2006 notwithstanding paragraph 91 of FRS 39, any financial assets and financial liabilities such an entity designated as at fair value through profit or loss in accordance with subparagraph (c) or (d) above that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through profit or loss. [previously paragraph 25A]~~

Fair value measurement of financial assets or financial liabilities

- D18 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of FRS 39 paragraph AG76, and paragraph AG76A, in either of the following ways:
- (a) prospectively to transactions entered into after 25 October 2002; or
- (b) prospectively to transactions entered into after 1 January 2004. [previously paragraph 25G]

Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment

- D19 INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to FRSs. If a first-time adopter uses this exemption, it shall:
- (a) measure the liability as at the date of transition to FRSs in accordance with FRS 37;
- (b) to the extent that the liability is within the scope of INT FRS 101, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and

- (c) calculate the accumulated depreciation on that amount, as at the date of transition to FRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity ~~under~~ in accordance with FRSs. [previously paragraph 25E]

Service concession arrangements

- D20 A first-time adopter may apply the transitional provisions in INT FRS 112. [previously paragraph 25H]

Borrowing costs

- D21 A first-time adopter may apply the transitional provisions in paragraphs 27 and 28 of FRS 23 *Borrowing Costs*, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to FRSs, whichever is the later. [previously paragraph 25I]

The text of Appendix E is new.

Appendix E

Short-term exemptions from FRSs

This appendix is an integral part of the FRS.

[Appendix reserved for future possible short-term exemptions]

Basis for Conclusions on proposed amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Restructuring of the FRS

- BC1 Since it was issued in 2003, FRS 101 *First-time Adoption of Financial Reporting Standards* has been amended many times to accommodate first-time adoption requirements resulting from new or amended standards. Because of the way FRS 101 is structured, these amendments make the FRS more complex and less clear. In the future, as more amendments become necessary, this problem will become worse.
- BC2 It was proposed to improve the structure of FRS 101 without amending its substance. The proposed revised structure should be easier for the reader to understand and better designed to accommodate future changes. The focus of the restructuring is to move to appendices all specific exemptions and exceptions from the requirements of FRSs. Exemptions will be categorised into business combinations, exemptions and short-term exemptions. Exemptions are those exemptions applicable to all first-time adopters regardless of their date of transition to FRSs. Short-term exemptions are those exemptions applicable to users for a short time. Once these exemptions have passed their useful date, they will be deleted.

Table of Concordance

This table shows how the contents of FRS 101 (issued in 2003 and amended in 2003–2007) and FRS 101 (as proposed to be revised) correspond.

| Existing FRS 101 paragraph | FRS 101 (revised) paragraph | Existing FRS 101 paragraph | FRS 101 (revised) paragraph |
|----------------------------|-----------------------------|----------------------------|-----------------------------|
| 1 | 1 | 25B | D2 |
| 2 | 2 | 25C | D3 |
| 3 | 3 | 25D | D4 |
| 4 | 4 | 25E | D19 |
| 5 | 5 | 25F | D9 |
| 6 | 6 | 25G | D18 |
| 7 | 7 | 25H | D20 |
| 8 | 8 | 25I | D21 |
| 9 | 9 | 26 | 13 |
| 10 | 10 | 27 | B2 |
| 11 | 11 | 27A | B3 |
| 12 | 12 | 28 | B4 |
| 13 | 18 | 29 | B5 |
| 14 | 19 | 30 | B6 |
| 15 | Appendix C | 31 | 14 |
| 16 | D5 | 32 | 15 |
| 17 | D6 | 33 | 16 |
| 18 | D7 | 34 | 17 |
| 19 | D8 | 34A | None |
| 20 | D10 | 34B | None |
| 20A | D11 | 35 | 20 |
| 21 | D12 | 36 | 21 |
| 22 | D13 | 36A | None |
| 23 | D16 | 36B | None |
| 24 | D14 | 36C | None |
| 25 | D15 | 37 | 22 |
| 25A | D17 | 38 | 23 |
| 39 | 24 | 47A | None |
| 40 | 25 | 47B | None |
| 41 | 26 | 47C | None |
| 42 | 27 | 47D | None |
| 43 | 28 | 47E | None |
| 43A | 29 | 47F | None |
| 44 | 30 | 47G | None |
| 45 | 31 | 47H | None |
| 46 | 32 | New | 34 |
| 47 | 33 | | |

Proposed amendments to Financial Reporting Standard 105 *Non-current Assets Held for Sale and Discontinued Operations*

Introduction and invitation to comment

Plan to sell the controlling interest in a subsidiary

The ASC proposes to amend FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* by adding paragraph 8A to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 105 not addressed in the exposure draft.

Question 2

Do you agree with the proposal to add paragraph 8A to FRS 105 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

Consequential amendment from FRS 41

Point-of-sale costs

The ASC also proposes to amend paragraph 5(e) of FRS 105 as a consequence of its proposed amendments to FRS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'. The invitation to comment and the basis for the ASC's proposal are included in the FRS 41 chapter in this exposure draft.

Proposed amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 is amended (new text is underlined, deleted text is struck through). Paragraphs 8A and 44A are added. Paragraphs 6–8 are included for ease of reference, but are not proposed for amendment.

Scope

- 5 The measurement provisions of this FRS^{*} do not apply to the following assets, which are covered by the ~~Standards~~ FRSs listed, either as individual assets or as part of a disposal group:
- (a) ...
 - (e) non-current assets that are measured at fair value less ~~estimated point-of-sale costs to sell~~ in accordance with FRS 41 *Agriculture*.
 - (f) ...

Classification of non-current assets (or disposal groups) as held for sale

- 6 **An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**
- 7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*.
- 8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- 8A An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Effective date

- 44A Paragraph 5 was amended and paragraph 8A was inserted in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements

^{*} Other than paragraphs 18 and 19, which require the assets in question to be measured in accordance with other applicable FRSs.

project; and

- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007) for that earlier period.

Basis for Conclusions on proposed amendment to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

- BC1 It was considered situations in which an entity is committed to a plan to sell the controlling interest in a subsidiary and, after the sale, retains a non-controlling interest in its former subsidiary, taking the form of either an investment in an associate, an investment in a joint venture or a financial asset. It was considered the issue of classification as held for sale in the consolidated financial statements of the entity.
- BC2 It was noted that paragraph 6 of FRS 105 states that 'An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.' It was also noted that FRS 27 *Consolidated and Separate Financial Statements* (as revised in 2007) defines control and requires a parent to consolidate a subsidiary until control is lost. At the date control is lost, all the subsidiary's assets and liabilities are derecognised and any investment retained in the former subsidiary is recognised. Loss of control is a significant economic event that changes the nature of an investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. Therefore, the new investor-investee relationship is recognised and measured initially at the date when control is lost.
- BC3 It was believed that, under the sale plan described above, the controlling interest of the subsidiary is, in substance, exchanged for a non-controlling interest. Therefore, it was viewed, being committed to a plan involving loss of control of a subsidiary should trigger classification as held for sale. It was also believed that this conclusion is consistent with FRS 27.
- BC4 It was noted that the subsidiary's assets and liabilities meet the definition of a disposal group in accordance with paragraph 4 of FRS 105. Therefore, it was believed that all the subsidiary's assets and liabilities should be classified as held for sale and not merely the portion of the interest to be disposed of.
- BC5 It was concluded that an entity that is committed to a sale plan involving loss of control of a subsidiary should classify all the subsidiary's assets and liabilities as held for sale, regardless of whether the entity will retain a non-controlling interest to give effect to the conclusion.

Proposed amendments to Financial Reporting Standard 107 *Financial Instruments: Disclosures*

Introduction and invitation to comment

Presentation of finance costs

The ASC proposes to amend the guidance on implementing FRS 107 *Financial Instruments: Disclosures*. There is a potential conflict between that guidance and FRS 1 *Presentation of Financial Statements* (as revised in 2007). FRS 1 precludes the presentation of net finance costs (or a similar term) in the statement of comprehensive income unless the finance costs and finance revenue included in the net total are disclosed. Paragraph IG13 of the guidance on implementing FRS 107 indicates that total interest income and total interest expense* could be included as a component of finance costs. The ASC proposes to resolve the potential conflict by amending paragraph IG13.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they, contain a clear rationale and, if applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in the guidance on implementing FRS 107 not addressed in the exposure draft.

Question 3

The ASC proposes to amend paragraph IG13 of the guidance on implementing FRS 107 *Financial Instruments: Disclosures* to resolve the potential conflict with FRS 1. Do you agree with the proposal? If not, why?

Consequential amendment from FRS 28 and FRS 31

Disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss

The ASC also proposes to amend paragraph 3 of FRS 107 as a consequence of its proposed amendments to FRS 28 *Investments in Associates* and FRS 31 *Interests in Joint Ventures* relating to the disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss. The invitations to comment and the bases for the ASC's proposals are included in the FRS 28 and FRS 31 chapters in this exposure draft.

* As disclosed in accordance with paragraph 20(b) of FRS 107.

Proposed amendments to FRS 107 *Financial Instruments: Disclosures*

Paragraph 3 is amended (new text is underlined, deleted text is struck through). Paragraph 44C is added.

Scope

- 3 This FRS shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates ~~and~~ or joint ventures that are accounted for in accordance with FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates* or FRS 31 *Interests in Joint Ventures*. However, in some cases, FRS 27, FRS 28 or FRS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 39; in those cases, entities shall apply the requirements of disclosure ~~requirements in FRS 27, FRS 28 or FRS 31 in addition to those in~~ this FRS. Entities shall also apply this FRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in FRS 32.

Effective date and transition

- 44C Paragraph 3 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

In the Guidance on Implementing FRS 107, paragraph IG13 is amended (new text is underlined, deleted text is struck through).

Total interest income and total interest expense (paragraph 20(b))

- IG13 ~~The total interest income and~~ Total interest expense disclosed in accordance with paragraph 20(b) is a component of the finance costs, which paragraph 82(b) of FRS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts that arise on ~~non-financial assets or non-financial liabilities~~.

Basis for Conclusions on proposed amendment to FRS 107 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Conflict with FRS 1 *Presentation of Financial Statements*

- BC1 It became aware that the guidance in paragraph IG13 of the guidance on implementing FRS 107 *Financial Instruments: Disclosures* could be read as conflicting with the requirements of FRS 1 *Presentation of Financial Statements* (as revised in 2007). Paragraph IG13 states that 'total interest income and total interest expense disclosed in accordance with paragraph 20(b) [of FRS 107] is a component' of finance costs. However, paragraph 82 of FRS 1 requires the statement of comprehensive income to include line items that present, inter alia, revenue and finance costs. Paragraph 32 of FRS 1 precludes the offsetting of income and expenses (except when required or permitted by an FRS). By indicating that total interest income and total interest expense disclosed in accordance with paragraph 20(b) might be a single component of finance costs, the guidance in paragraph IG13 is potentially in conflict with the requirements of FRS 1. Therefore, it was decided to propose the amendment to paragraph IG13.

Proposed amendments to Financial Reporting Standard 1 *Presentation of Financial Statements*

Introduction and invitation to comment

Statement of compliance with FRSs

The ASC proposes to insert in FRS 1 *Presentation of Financial Statements* (as revised in 2007) disclosure requirements for entities that refer to Financial Reporting Standards (FRSs) in describing the basis on which their financial statements are prepared but are not able to make an explicit and unreserved statement of compliance with FRSs. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full compliance with FRSs.

The Institute of Certified Public Accountants of Singapore (ICPAS) published in August 2007 an exposure draft of Proposed Singapore Standard on Auditing (SSA) 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*. The ICPAS included in its exposure draft proposed guidance for auditors on their evaluation of the description of the financial reporting framework in the financial statements. It also included proposed guidance for auditors on addressing the effect that such a description may have on the auditor's opinion. The ICPAS prepared its proposed guidance on the basis of the ASC's proposed amendment to FRS 1 included in this annual improvements exposure draft.

Current/non-current classification of convertible instruments

FRS 1 requires a liability to be classified as current if the entity does not have an unconditional right to defer settlement for at least twelve months from the end of the reporting period. The *Framework* states that settlement includes conversion of the liability into equity. Consequently, the liability component of a convertible instrument that the entity could be required to settle in shares at any time would be classified as current.

The ASC proposes to limit the requirement for an entity to have an unconditional right to defer settlement to settlement by transfer of cash or other assets.

Current/non-current classification of derivatives

The ASC proposes to amend FRS 1 to address inconsistent guidance in FRS 1 regarding the current/non-current classification of derivatives. The guidance included in paragraph 71 of FRS 1 might be read by some as implying that financial liabilities that are classified as held for trading in accordance with FRS 39 are required to be presented as current. The ASC expects the criteria set out in paragraph 69 of FRS 1 to be used to assess whether a financial liability should be classified as current or non-current. The ASC also noted that a similar concern exists in respect of current assets in paragraph 68.

The ASC invites comments on the proposed amendments to FRS 1. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 1 not addressed in the exposure draft.

Question 4

Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with FRSs to describe how its financial statements would have been different if prepared in full compliance with FRSs? If not, why?

Question 5

Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

Question 6

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of FRS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with FRS 39 are required to be presented as current? If not, why?

Proposed amendments to FRS 1 *Presentation of Financial Statements*

Paragraphs 16A and 139A are added. For ease of reference, paragraph 16 is included although it is not proposed for amendment. Paragraphs 68, 69, 71 and 114 are amended (new text is underlined, deleted text is struck through).

Overall considerations

Fair presentation and compliance with FRSs

- 16 An entity whose financial statements comply with FRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with FRSs unless they comply with all the requirements of FRSs.
- 16A When an entity refers to FRSs in describing the basis on which its financial statements are prepared but is not able to make an explicit and unreserved statement of compliance with FRSs, the entity shall:
- (a) describe each difference between the basis on which its financial statements are prepared and FRSs that are applicable to its financial statements; and
 - (b) describe how its reported financial position and performance of the entity would have differed if it had complied with FRSs.

Statement of financial position

Current assets

- 68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (~~financial assets within this category are classified as held for trading in accordance with FRS 39~~) and the current portion of non-current financial assets.

Current liabilities

- 69 An entity shall classify a liability as current when:
- (a) it expects to settle the liability in its normal operating cycle;
 - (b) it holds the liability primarily for the purpose of trading;
 - (c) the liability is due to be settled within twelve months after the reporting period;
or
 - (d) it does not have an unconditional right to defer settlement of the liability by the transfer of cash or other assets for at least twelve months after the reporting period (see paragraph 73).

An entity shall classify all other liabilities as non-current.

- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for

settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are ~~financial liabilities classified as held for trading in accordance with FRS 39~~, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

- 114 An entity normally presents notes in the following order, which assists users to understand the financial statements and to compare them with financial statements of other entities:
- (a) statement of compliance with FRSs (see paragraph 16) or description of differences from FRSs (see paragraph 16A);
 - (b) summary of significant accounting policies applied (see paragraph 117);
 - (c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
 - (d) other disclosures, including:
 - (i) contingent liabilities (see FRS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see FRS 7).

Transition and effective date

- 139A Paragraphs 68, 69, 71 and 114 were amended and paragraph 16A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and apply the amendments to other FRSs introduced by the first annual improvements project.**

Basis for Conclusions on proposed amendments to FRS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

BC1 This Basis for Conclusions summarises the considerations in proposing amendments to FRS 1 *Presentation of Financial Statements* (as revised in 2007).

Compliance with FRSs

BC2 An entity might refer to FRSs in describing the basis on which its financial statements are prepared without describing those statements as complying with FRSs. For example, the accounting policies may be described as being 'in accordance with FRSs as adopted/modified for use in [country X]'. In some situations, a financial reporting framework based on FRSs and the complete set of current FRSs may not be significantly different. In other cases, however, the differences may significantly affect the reported financial position or performance of an entity. Consequently, references to FRSs in describing the basis on which the financial statements are prepared may mislead users. Some users might expect there to be a close relationship between financial statements based on FRSs and those in compliance with FRSs. Furthermore, users may be unable to identify the differences between a financial reporting framework based on FRSs and the complete set of current FRSs.

BC3 It was proposed that when an entity refers to FRSs as the basis of its financial reporting framework but does not make an unreserved statement of compliance with FRSs, it should disclose each instance when FRSs are applicable to its financial statements but are not complied with. It should also describe (but need not quantify) the effect, on the statement of financial performance and statement of financial position, of the difference between complying with the accounting required by FRSs and the accounting treatments applied by the entity. Such disclosures would enable users to judge the usefulness of the information presented and the significance of those differences for the financial statements. It would also help users to interpret those statements and assess their comparability with those of other entities.

Classification of the liability component of a convertible instrument

BC4 It was considered the classification of the liability component of a convertible instrument as current or non-current. Paragraph 69(d) of FRS 1 states that when an entity does not have an unconditional right to defer settlement of a liability for at least twelve months after the reporting period, the liability should be classified as current. According to the *Framework*, conversion of a liability into equity is a form of settlement.

BC5 The application of these requirements means that if the conversion option can be exercised by the holder at any time, the liability component would be classified as current. This classification would be required even if the entity would not be required to settle unconverted instruments with cash or other assets for more than twelve months after the reporting period.

BC6 FRS 1 and the *Framework* state that information about the liquidity and solvency positions of an entity is useful to users. The terms 'liquidity' and 'solvency' are associated with the availability of cash to an entity. Issuing equity does not result in an outflow of cash or other assets of the entity.

BC7 It was concluded that classifying the liability on the basis of the requirements to transfer cash or other assets rather than on settlement better reflects the liquidity and solvency position of an entity, and it proposes to amend FRS 1 accordingly.

Current assets and current liabilities

- BC8 It was identified inconsistent guidance in FRS 1 regarding the current/non-current classification of derivatives. The guidance included in paragraph 71 of FRS 1 might be read by some as implying that financial liabilities that are classified as held for trading in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* are required to be presented as current.
- BC9 It was expected the criteria set out in paragraph 69 of FRS 1 to be used to assess whether a financial liability should be classified as current or non-current. Therefore it was decided to remove the identified inconsistency by amending the examples of current liabilities in paragraph 71 of FRS 1. It was also decided to make a similar amendment to paragraph 68 in respect of current assets.

Alternative views on proposed amendments to FRS 1

Alternative views of James J Leisenring and Warren J McGregor (IASB Board members)

- AV1 Messrs Leisenring and McGregor voted against the publication of the exposure draft of proposed amendments to FRS 1 *Presentation of Financial Statements*. Their alternative views are set out below.
- AV2 Those Board members believe it is inappropriate to include a requirement in FRSs for an entity to disclose that it has not complied with FRSs. Such a requirement is, in their opinion, tantamount to condoning non-compliance with FRSs and, as such, undermines the credibility of FRSs.
- AV3 Messrs Leisenring and McGregor also disagree with the proposed disclosure requirement because they believe that the objective of including the requirement is unlikely to be achieved: in their view there is no reason to believe that entities that have failed to comply with other FRS requirements will comply with this proposed requirement. Moreover, it is hard to imagine an entity disclosing that it has failed to meet this disclosure requirement.

Proposed amendment to Financial Reporting Standard 2 *Inventories*

Introduction

Consequential amendment from FRS 41

Point-of-sale costs

The ASC proposes to amend FRS 2 *Inventories* as a consequence of its proposed amendments to FRS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'. The invitation to comment and the basis for the ASC's proposal are included in the FRS 41 chapter in this exposure draft.

Proposed amendment to FRS 2 *Inventories*

Paragraph 20 is amended (new text is underlined, deleted text is struck through).

- 20 In accordance with FRS 41 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less ~~estimated point-of-sale~~ costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Proposed amendment to Financial Reporting Standard 7 *Statement of Cash Flows*

Introduction

Consequential amendment from FRS 16

Sale of assets held for rental

The ASC proposes to amend FRS 7 *Statement of Cash Flows* as a consequence of its proposed amendments to FRS 16 *Property, Plant and Equipment* relating to the sale of assets held for rental. The invitation to comment and the basis for the ASC's proposal are included in the FRS 16 chapter in this exposure draft.

Proposed amendment to FRS 7 *Statement of Cash Flows*

Paragraph 14 is amended (new text is underlined, deleted text is struck through). Paragraph 54 is added.

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) ...
- (c) cash payments to suppliers for goods and services;
- ...
- (g) ...

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss ~~which that~~ is included in ~~the determination of~~ recognised profit or loss. ~~However,~~ The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of FRS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective date

54 Paragraph 14 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Proposed amendments to Financial Reporting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Introduction and invitation to comment

Status of implementation guidance

The ASC proposes to amend FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the status of implementation guidance. The ASC has been advised that paragraph 7 of FRS 8 could be misinterpreted as requiring the mandatory application of implementation guidance.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the question below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 8 not addressed in the exposure draft.

Question 7

Do you agree with the proposal to amend paragraphs 7, 9 and 11 of FRS 8 to clarify the status of implementation guidance? If not, why?

Proposed amendments to FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 7, 9 and 11 are amended (new text is underlined, deleted text is struck through). Paragraph 54A is added.

Accounting policies

Selection and application of accounting policies

- 7 When an FRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the FRS, ~~and considering any relevant Implementation Guidance issued by the CCDG for the FRS.~~
- 9 ~~Implementation Guidance for FRSs issued by the CCDG includes guidance on implementation, illustrative examples, illustrative disclosures and other similar material. Such guidance does not form part of these FRSs, and therefore does not contain requirements for financial statements. It is published to assist entities in applying FRSs, but is not mandatory. In contrast, application guidance forms an integral part of FRSs, and is mandatory.~~
- 11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:
- (a) the requirements ~~and guidance~~ in FRSs dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

Effective date

- 54A Paragraphs 7, 9 and 11 were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Basis for Conclusions on proposed amendments to FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Status of implementation guidance

- BC1 It has been advised that paragraph 7 of FRS 8 could be misinterpreted as requiring the mandatory application of implementation guidance. Implementation guidance published with FRSs does not form part of those FRSs, and therefore does not contain requirements for financial statements. It was proposed to amend paragraphs 7, 9 and 11 of FRS 8 to make clear that implementation guidance is non-mandatory.

Proposed amendment to Financial Reporting Standard 10 *Events after the Reporting Period*

Introduction and invitation to comment

Dividends declared after the end of the reporting period

The ASC proposes to amend FRS 10 *Events after the Reporting Period* to clarify why a dividend declared after the reporting period does not result in the recognition of a liability.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 10 not addressed in the exposure draft.

Question 8

Do you agree with the proposal to amend paragraph 13 of FRS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

Proposed amendment to FRS 10 *Events after the Reporting Period*

Paragraph 13 is amended (new text is underlined, deleted text is struck through). Paragraph 12 has been included for ease of reference but is not proposed for amendment. Paragraph 23A is added.

Dividends

- 12 **If an entity declares dividends to holders of equity instruments (as defined in FRS 32 *Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.**
- 13 If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time ~~they do not meet the criteria of a present obligation in FRS 37.~~ Such dividends are disclosed in the notes in accordance with FRS 1 *Presentation of Financial Statements* (as revised in 2007).

Effective date

- 23A **Paragraph 13 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:**
- (a) **apply the amendments to other FRSs introduced by the first annual improvements project; and**
 - (b) **apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)**
- for that earlier period.**

Basis for Conclusions on proposed amendment to FRS 10 *Events after the Reporting Period*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Dividends

- BC1 It was identified a potentially unclear explanation in the guidance in FRS 10. It relates to the explanation of why a dividend declared after the reporting period does not result in the recognition of a liability.
- BC2 It was noted that some may read the guidance to imply that a liability should be recognised for dividends not declared until after the reporting period on the basis of a constructive obligation. Such circumstances may arise, for example, when there is an established pattern of paying a dividend. It was noted that these circumstances were considered at the time that FRS 10 was revised and at that time it was concluded that no liability should be recognised because there is no obligation at the end of the reporting period. This is described in paragraph BC4 of the Basis for Conclusions on FRS 10.
- BC3 It was decided to address the potentially unclear explanation in paragraph 13 of FRS 10 by incorporating into the FRS the explanation that is in the Basis for Conclusions.

Proposed amendments to Financial Reporting Standard 16 *Property, Plant and Equipment*

Introduction and invitation to comment

Recoverable amount

The ASC proposes to amend FRS 16 *Property, Plant and Equipment* to remove the perceived inconsistency between the definition of recoverable amount and the term 'recoverable amount' used in other FRSs.

Sale of assets held for rental

The ASC also proposes to amend FRS 16 to address presentation issues arising from assets held for rental to others that are routinely sold in the course of its ordinary activities. The ASC proposes a consequential amendment to FRS 7 *Statement of Cash Flows* in respect of this issue. The proposed amendment to FRS 7 is included in the FRS 7 chapter of this exposure draft.

The ASC invites comments on the proposed amendments to FRS 16. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 16 not addressed in the exposure draft.

Question 9

Should the definition of recoverable amount in FRS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other FRSs? If not, why?

Question 10

Do you agree with the proposal to amend paragraph 68 of FRS 16 and paragraph 14 of FRS 7? If not, why?

Consequential amendment from FRS 40

Property under construction or development for future use as investment property

The ASC also proposes to amend FRS 16 as a consequence of its proposed amendments to FRS 40 *Investment Property* relating to property under construction or development for future use as investment property. The invitation to comment and the basis for the ASC's proposal are included in the FRS 40 chapter in this exposure draft.

Proposed amendments to FRS 16 *Property, Plant and Equipment*

Paragraphs 5, 6 and 69 are amended (new text is underlined, deleted text is struck through) and paragraphs 68A and 81B are added. Paragraph 68 is included here for ease of reference, but is not proposed for amendment.

- 5 ~~An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in FRS 40 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply FRS 40. FRS 40 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with FRS 40 *Investment Property* shall use the cost model in this Standard.~~

Definitions

- 6 The following terms are used in this Standard with the meanings specified:

...

Recoverable amount is the higher of an asset's ~~net selling price~~ fair value less costs to sell and its value in use.

...

Derecognition

- 68 **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless FRS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
- 68A However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with FRS 18 *Revenue*.
- 69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in FRS 18 ~~Revenue~~ for recognising revenue from the sale of goods. FRS 17 applies to disposal by a sale and leaseback.

Effective date

- 81B **Paragraphs 5, 6 and 69 were amended and paragraph 68A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:**
- (a) **apply the amendments to other FRSs introduced by the first annual improvements project; and**
 - (b) **apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)**

for that earlier period.

Basis for Conclusions on proposed amendments to FRS 16 *Property, Plant and Equipment* and proposed consequential amendment to FRS 7 *Statement of Cash Flows*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Recoverable amount

- BC1 Recoverable amount is defined in FRS 16 as the higher of an asset's net selling price and its value in use. It was proposed to replace the term 'net selling price' in this definition with 'fair value less costs to sell' for consistency with the wording used in FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and FRS 36 *Impairment of Assets*.

Assets held for rental to others

- BC2 It was identified that, in some industries, entities are in the business of renting and subsequently selling the same asset.
- BC3 It was noted that FRS 16 prohibits classification as revenue of gains arising from derecognition of items of property, plant and equipment. It was also noted that the Basis for Conclusions on FRS 16 (paragraph BC35) states the reason for this as 'users of financial statements would consider these gains and the proceeds from an entity's sale of goods in the course of its ordinary activities differently in their evaluation of an entity's past results and their projections of future cash flows.'
- BC4 Consistently with that reason, it was concluded that entities whose ordinary activities include renting and subsequently selling the same assets should recognise revenue from both renting and selling the assets. It was viewed, the presentation of gross selling revenue, rather than a net gain or loss on the sale of the assets, would better reflect the ordinary activities of such entities.
- BC5 It was concluded that the disclosure requirements of FRS 16, FRS 2 *Inventories* and FRS 18 *Revenue* would lead an entity to disclose relevant information for users.
- BC6 It was also concluded that FRS 7 *Statement of Cash Flows* should be amended to present within operating activities cash payments to manufacture or acquire such assets and cash receipts from rents and sales of such assets.

Proposed amendments to Financial Reporting Standard 17 *Leases*

Introduction and invitation to comment

Classification of leases of land and buildings

The ASC proposes to amend FRS 17 *Leases* to address a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in FRS 17.

Contingent rent

FRS 17 requires contingent rent relating to an operating lease to be estimated at the inception of the lease and recognised on a straight-line basis over the lease term. However, because of perceived ambiguities in the FRS, current practice has been to recognise contingent rent relating to an operating lease in the manner prescribed for finance leases (ie as incurred).

The ASC proposes that contingent rent relating to an operating lease should be recognised as incurred. This would achieve consistency in the treatment of contingent rent for finance and operating leases.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 17 not addressed in the exposure draft.

Question 11

Do you agree with the proposal to amend paragraphs 14 and 15 of FRS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in FRS 17? If not, why?

Question 12

Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

Proposed amendments to FRS 17 Leases

Paragraph 14 is deleted. Paragraphs 15, 33, 34, 39, 40, 50 and 51 are amended (new text is underlined, deleted text is struck through) and paragraphs 19A and 69A are added.

Classification of leases

- 14 ~~[Deleted] Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets~~
- 15 The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The classification of the land and buildings elements is classified as a finance or operating lease is made in accordance with paragraphs 7–13.
- 19A A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Leases in the financial statements of lessees

Operating leases

- 33 Lease payments (excluding costs for services, taxes to be paid by and reimbursed to the lessor and contingent rent) under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.* Contingent rent shall be recognised as an expense in the periods in which it is incurred.
- 34 For operating leases, lease payments (excluding costs for services such as insurance and maintenance, taxes to be paid by and reimbursed to the lessor and contingent rent) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

Leases in the financial statements of lessors

Finance leases

Subsequent measurement

- 39 The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Contingent rent shall be recognised as income in the periods in which it is earned.
- 40 A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services and contingent rent, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

* See also INT FRS-15 *Operating Leases—Incentives*.

Operating leases

- 50 **Lease income (excluding receipts for services provided, tax payments reimbursed by the lessee and contingent rent) from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.* Contingent rent shall be recognised as income in the periods in which it is earned.**
- 51 Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance, tax payments reimbursed by the lessee and contingent rent) is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Effective date

- 69A Paragraph 14 was deleted, paragraphs 15, 33, 34, 39, 40, 50 and 51 were amended and paragraph 19A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

* See also INT FRS-15 *Operating Leases—Incentives*

Basis for Conclusions on proposed amendments to FRS 17 Leases

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Classification of leases

- BC1 It was identified an apparent inconsistency in the guidance on the classification of leases of land and buildings.
- BC2 It was observed that the guidance in paragraph 14 of FRS 17 *Leases* on classification of leases of land and buildings may be read by some as conflicting with the general guidance on lease classification in paragraphs 8–12.
- BC3 It was concluded that the guidance in paragraphs 14 and 15 relating to lease classification might lead to a conclusion on lease classification for land that does not reflect the substance of the transaction. Therefore, it decided to remove this possible risk by deleting the guidance in those paragraphs.

Contingent rent

- BC4 FRS 17 requires an entity to estimate contingent rent relating to an operating lease at the inception of the lease and to recognise it on a straight-line basis over the lease term. However, in practice, such rent is recognised as incurred because of a perception that the requirements of the Standard are ambiguous and inconsistent with the treatment of contingent rent relating to finance leases.
- BC5 It was acknowledged that the requirements of FRS 17 relating to contingent rent are ambiguous. It was therefore proposed to amend the Standard to require contingent rent relating to an operating lease to be recognised as incurred. It was believed this will remove any divergence in practice and provide consistent treatment of contingent rent in finance and operating leases.

Proposed amendment to the guidance on Financial Reporting Standard 18 *Revenue*

Introduction and invitation to comment

Costs of originating a loan

The ASC proposes to amend the guidance accompanying FRS 18 *Revenue* to remove an inconsistency with FRS 39 *Financial Instruments: Recognition and Measurement*. The inconsistency relates to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. The proposed amendment states that the transaction costs to be applied to the accounting for financial asset origination fees in accordance with FRS 18 are those defined in FRS 39.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in the guidance on FRS 18 not addressed in the exposure draft.

Question 13

Do you agree with the proposed amendment to the guidance on FRS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in FRS 39? If not, why?

Proposed amendment to the guidance on FRS 18 *Revenue*

In the Appendix, paragraph 14 is amended (new text is underlined, deleted text is struck through).

Rendering of services

14 *Financial service fees*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under FRS 39 is classified as a financial asset 'at fair value through profit or loss'.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related ~~direct~~ transaction costs (as defined in FRS 39), are deferred and recognised as an adjustment to the effective interest rate.

Basis for Conclusions on proposed amendment to the guidance on FRS 18 *Revenue*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Financial service fees

- BC1 It was identified an apparent inconsistency in the guidance on FRS 18 *Revenue* and in FRS 39 *Financial Instruments: Recognition and Measurement*. It relates to the identification of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. Paragraph 9 of FRS 39 defines transaction costs as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Paragraph 14 of the Appendix to FRS 18 permits the deferral of related direct costs incurred in the origination of a financial asset. FRS 18 does not require such costs to be incremental.
- BC2 It was proposed to remove this inconsistency. It believes that the definition of transaction costs in FRS 39 is more appropriate and should be used to determine the costs that are deferred in accordance with FRS 18 on the origination of a loan.

Proposed amendments to Financial Reporting Standard 19 *Employee Benefits*

Introduction and invitation to comment

The ASC proposes to amend FRS 19 *Employee Benefits* to deal with four matters.

Curtailments and negative past service costs

The ASC proposes to amend FRS 19 in respect of plan amendments. Ambiguous definitions of negative past service costs and curtailments have resulted in diverse accounting for plan amendments that reduce existing benefits. This proposed amendment clarifies that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost. The ASC also proposes to delete a reference to materiality in paragraph 111 of FRS 19.

Plan administration costs

The ASC proposes to amend the definition of return on plan assets in FRS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

Replacement of term 'fall due'

The ASC proposes to replace the term 'fall due' in the definitions of short-term employee benefits and other long-term employee benefits.

Guidance on contingent liabilities

The ASC proposes to remove from FRS 19 the reference to recognition in relation to contingent liabilities.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the questions below. Comments are most helpful if they indicate a specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 19 not addressed in the exposure draft.

Question 14(a)

Do you agree that FRS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

Question 14(b)

Do you agree that the ASC should delete the following sentence from paragraph 111 of FRS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'? If not, why?

Question 15

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of FRS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

Question 16

Do you agree with the proposal to replace in FRS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

Question 17

Should the reference in FRS 19 to recognising contingent liabilities be removed? If not, why?

Proposed amendments to FRS 19 *Employee Benefits*

Paragraphs 7, 8, 32B, 97, 98, 111 and 160 are amended (new text is underlined, deleted text is struck through). Paragraphs 111A and 159D are added.

Definitions

7 The following terms are used in this Standard with the meanings specified:

...

Short-term employee benefits are employee benefits (other than termination benefits) to which the employee becomes entitled ~~fall due wholly~~ within twelve months after the end of the period in which the employee renders the related service.

...

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) to which the employee does not become entitled ~~do not fall due wholly~~ within twelve months after the end of the period in which the employee renders the related service.

...

The **return on plan assets** is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

...

Past service cost is the ~~increase~~ change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (~~where~~ when benefits are introduced or improved) or negative (~~where~~ when existing benefits are reduced).

Short-term employee benefits

8 Short-term employee benefits include items such as:

- (a) wages, salaries and social security contributions;
- (b) short-term compensated absences (such as paid annual leave and paid sick leave) where employees are entitled to be compensated for absences occurring ~~the absences are expected to occur~~ within twelve months after the end of the period in which the employees render the related employee service;
- (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
- (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods

or services) for current employees.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

Multi-employer plans

32B FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to ~~recognise~~, or disclose information about, ~~certain~~ some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

- (a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or
- (b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

Post-employment benefits: defined benefit plans

Recognition and measurement: present value of defined benefit obligations and current service cost

Past service cost

97 Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost ~~is recognised~~ over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures ~~Past service cost is measured~~ as the change in the liability resulting from the amendment (see paragraph 64). Negative past service cost arises when an entity reduces the benefits attributable to past service under an existing defined benefit plan.

[Example not amended]

98 Past service cost excludes:

- (a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
- (b) underestimates and overestimates of discretionary pension increases ~~where~~ when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);
- (c) estimates of benefit improvements that result from actuarial gains that have ~~already~~ been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));
- (d) the increase in vested benefits when, in the absence of new or improved benefits,

employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits ~~was recognised~~ as current service cost as the service was rendered); and

- (e) the effect of plan amendments that reduce benefits for future service (a curtailment).

Curtailments and settlements

111 A curtailment occurs when an entity either:

- (a) is demonstrably committed to make a ~~material~~ significant reduction in the number of employees covered by a plan; or
- (b) amends the terms of a defined benefit plan ~~such so~~ that a ~~material~~ significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan. ~~An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.~~ Curtailments are often linked with a restructuring. When this is the case ~~Therefore~~, an entity accounts for a curtailment at the same time as for a related restructuring.

111A When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

Effective date

159D Paragraphs 7, 32B, 97, 98 and 111 were amended and paragraph 111A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and**
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)**

for that earlier period.

160 FRS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159–159CD. In applying those changes retrospectively, as required by FRS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard, ~~except~~. The exception is that an entity may disclose the amounts required by paragraph 120A(p) as the amounts are determined for each annual period prospectively from the first annual period presented in the financial statements in which the entity first applies the amendments in paragraph 120A.

Basis for Conclusions on proposed amendments to FRS 19 *Employee Benefits*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Definitions

- BC1 It was identified an inconsistency in FRS 19 between the definition of return on plan assets and the way in which that term is used.
- BC2 It was believed that plan administration costs should be deducted in the calculation of the return on plan assets only to the extent that those costs have not been included in the actuarial assumptions used to measure the defined benefit obligation. Deduction of such costs in calculating the return on plan assets and including the same costs in the actuarial assumptions used to measure the defined benefit obligation would result in double-counting them.
- BC3 It was decided to eliminate this inconsistency by amending the definition of return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

Fall due

- BC4 It was discussed a potential conflict between paragraphs 7 and 8 of FRS 19. Paragraph 7 states that compensated absences fall due when the employee has rendered the service. Short-term compensated absences are described in paragraph 8 as benefits 'expected to occur' within twelve months after the end of the period. Other long-term employee benefits are defined as employee benefits which do not 'fall due' wholly within twelve months after the end of the period. Therefore, a compensated absence that is due to the employee but is not expected to occur for more than twelve months is not an 'other long-term employee benefit' as defined in paragraph 7 of FRS 19, nor is it a short-term compensated absence as described in paragraph 8(b) of FRS 19. In view of this perceived conflict, it was proposed to amend the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due' with the notion of employee entitlement. It was noted that it is the timing of the employees entitlement to the benefit rather than the expected timing of settlement that is the critical factor in classifying the benefit.

Contingent liabilities

- BC5 Paragraph 32B of FRS 19 states that contingent liabilities are required to be recognised in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This is inconsistent with FRS 37, which states that an entity shall not recognise a contingent liability. Therefore, it was proposed to remove the reference to recognition.

Curtailments and negative past service costs

- BC6 Plan amendments that reduce existing benefits meet the FRS 19 definitions of both a curtailment and negative past service costs. At the international level, the International Financial Reporting Interpretations Committee (IFRIC) asked the IASB to clarify when entities should account for those plan amendments as a curtailment instead of as negative past service costs.
- BC7 FRS 19 requires recognition of curtailments when they occur, together with any related actuarial gains and losses that the entity had not previously recognised. An entity recognises negative past service costs over the average period until the reduced portion of the benefits becomes

vested. Members of the IFRIC reported that practices for the recognition of gains or losses on plan amendments that reduce existing benefits differ, and that such differences can lead to substantial differences in amounts that entities recognise in profit or loss.

- BC8 It was noted that its preliminary decisions in phase 1 of the post-employment benefits project would align the treatment of negative past service costs and curtailments, thereby reducing the need to distinguish between them. However, it was proposed this amendment because economic events in recent years have resulted in more plan amendments. Pending the outcome of phase 1, the distinction between negative past service cost and curtailments affects how entities account for these plan amendments.
- BC9 It was viewed, interpreting paragraph 98(e) as excluding from the definition of past service cost only reductions in benefit for *future* service would be consistent with the reason for amending the proposal for negative plan amendments in E54 (the exposure draft of 1996 that preceded FRS 19), ie to treat 'positive' and 'negative' plan amendments in the same way (see paragraph 61 of the Basis for Conclusions on FRS 19). Accordingly, the proposed amendments clarify that the definition of past service cost includes reductions in benefits for past service, even if they result from plan amendments that also reduce future benefits.
- BC10 It was also decided to eliminate the statement about materiality in the last part of paragraph 111 because it is unnecessary. The similar statement in FRS 1 *Presentation of Financial Statements* (as revised in 2007) applies to all FRSs, including FRS 19.

Proposed amendments to Financial Reporting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Introduction and invitation to comment

Consistency of terminology with other FRSs

The ASC proposes to amend FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to conform terminology used by FRS 20 to the equivalent defined or more widely used terms. The ASC proposes consequential amendments to FRS 41 *Agriculture* in respect of this issue. The proposed consequential amendments to FRS 41 are included in the FRS 41 chapter of this exposure draft.

Government loans with a below-market rate of interest

The ASC also proposes to amend FRS 20 to remove an inconsistency with FRS 39 *Financial Instruments: Recognition and Measurement*. The proposed amendment clarifies that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with FRS 39.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 20 not addressed in the exposure draft.

Question 18

Do you agree with the proposal to conform terminology used by FRS 20 to the equivalent defined or more widely used terms? If not, why?

Question 19

Do you agree with the proposed amendments to FRS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with FRS 39? If not, why?

Proposed amendments to FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Paragraphs 2, 12–18, 20–22, 26, 27, 32 and 37 are amended (new text is underlined, deleted text is struck through). Paragraphs 10A and 42 are added. Paragraph 10 is reproduced for ease of reference but is not proposed for amendment.

Scope

2 This Standard does not deal with:

...

- (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable ~~income~~ profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are ~~(such as~~ income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates);

...

Government grants

10 A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit shall be quantified by the imputation of interest on the loan in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. The loan shall be recognised and measured in accordance with FRS 39 and the benefit of the below-market rate of interest shall be accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

12 **Government grants shall be recognised as income in profit or loss on a systematic basis over the periods necessary to match them with in which the entity recognises as expenses the related costs for which they the grants are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests.**

13 There are two broad approaches ~~may be found~~ to the accounting ~~treatment of~~ for government grants: the capital approach, under which a grant is recognised outside profit or loss ~~credited directly to shareholders' interests~~, and the income approach, under which a grant is ~~taken to~~ income recognised in profit or loss over one or more periods.

14 Those in support of the capital approach argue as follows:

- (a) government grants are a financing device and should be dealt with as such in the statement of financial position rather than be ~~passed through~~ recognised in profit or loss to offset the items of expense ~~which that~~ they finance. ~~Since~~ Because no repayment is expected, ~~they such grants~~ should be ~~credited directly to shareholders' interests~~ recognised directly in equity; and

- (b) it is inappropriate to recognise government grants in profit or loss, ~~since~~ because they are not earned but represent an incentive provided by government without related costs.
- 15 Arguments in support of the income approach are as follows:
- (a) ~~since~~ because government grants are receipts from a source other than shareholders, they should not be ~~credited directly to shareholders' interests~~ recognised directly in equity but should be recognised ~~as income~~ in profit or loss in appropriate periods;
- (b) government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised ~~as income~~ in profit or loss over the periods in which the entity recognises as expenses the related ~~and matched with the associated costs~~ for which the grant is intended to compensate; and
- (c) ~~as~~ because income and other taxes are ~~charges against income~~ expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss.
- 16 It is fundamental to the income approach that government grants should be recognised ~~as income~~ in profit or loss on a systematic and rational basis over the periods in which the entity recognises as expenses the necessary to match them with the related costs for which the grant is intended to compensate. ~~Income~~ Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see FRS 1 *Presentation of Financial Statements (as revised in 2007)*) and would ~~only~~ be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.
- 17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. ~~and~~ Thus grants in recognition of specific expenses are recognised ~~as income~~ in profit or loss in the same period as the relevant expense. Similarly, grants related to depreciable assets are usually recognised ~~as income~~ in profit or loss over the periods and in the proportions in which depreciation on those assets is charged.
- 18 Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised ~~as income~~ in profit or loss over the periods that ~~which~~ bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise ~~it~~ the grant ~~as income~~ in profit or loss over the life of the building.
- 20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised ~~as income~~ in profit or loss of the period in which it becomes receivable.**
- 21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to ~~an individual~~ a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant ~~as income~~ in profit or loss ~~of~~ in the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.
- 22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised ~~as income~~ in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.
- ...

Presentation of grants related to assets

- 26 One method ~~sets up~~ recognises the grant as deferred income ~~that which~~ is recognised ~~as income~~ in profit or loss on a systematic and rational basis over the useful life of the asset.
- 27 The other method deducts the grant in ~~arriving at~~ calculating the carrying amount of the asset. The grant is recognised ~~as income~~ in profit or loss over the life of a depreciable asset ~~by way of~~ as a reduced depreciation charge.

Repayment of government grants

- 32 A government grant that becomes repayable shall be accounted for as a ~~revision to an~~ change in accounting estimate (see FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit ~~set up~~ recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when ~~re~~ no deferred credit exists, the repayment shall be recognised immediately ~~as an expense~~ in profit or loss. Repayment of a grant related to an asset shall be ~~recorded~~ recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date ~~as an expense~~ in the absence of the grant shall be recognised immediately ~~as an expense~~ in profit or loss.

Government assistance

- 37 ~~[Deleted] Loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.~~

Effective date

- 42 Paragraph 37 was deleted, paragraphs 2, 12–18, 20–22, 26, 27 and 32 were amended and paragraph 10A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Basis for Conclusions on proposed amendments to FRS 20 Accounting for Government Grants and Disclosure of Government Assistance

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Defined terms

- BC1 It was identified that FRS 20 uses some terms that are inconsistent with defined terms or with more widely used terms for equivalent items in other standards. It was believed that the consistency of the standards would be improved if the terms used by FRS 20 were changed to the equivalent defined or more widely used terms.
- BC2 It was identified the use of the following terms in FRS 20 instead of the terms defined or more commonly used in other standards:
- 'taxable income' instead of 'taxable profit or tax loss';
 - 'recognised as income' instead of 'recognised in profit or loss'; and
 - 'revision to an accounting estimate' instead of 'change in accounting estimate'.

It was proposed to eliminate this inconsistency by replacing these terms with the defined or more commonly used terms.

- BC3 Other minor changes have been made to improve readability without changing the meaning. This includes deletion of the statement in paragraph 12 that grants shall not be credited directly to shareholders' interests. This statement is unnecessary because paragraph 12 states that government grants shall be recognised in profit or loss.

Accounting for loans from government with a below-market rate of interest

- BC4 It was identified an apparent inconsistency between the guidance in FRS 20 and in FRS 39 *Financial Instruments: Recognition and Measurement*. It relates to the accounting for loans received from a government with a below-market rate of interest. FRS 20 states that no interest should be imputed for such a loan, whereas FRS 39 requires all loans to be recognised at fair value, thus imputing interest to loans with a below-market rate of interest.
- BC5 It was decided to remove this inconsistency. It believes that the imputation of interest will provide more relevant information to a user of the financial statements than not doing so. Accordingly it was proposed to require that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with FRS 39. The benefit of the government loan is quantified by the imputation of interest in accordance with FRS 39. This benefit is accounted for in accordance with FRS 20.

Proposed amendment to Financial Reporting Standard 23 *Borrowing Costs*

Introduction and invitation to comment

Components of borrowing costs

The ASC proposes to amend FRS 23 *Borrowing Costs* (as revised in 2007) to refer to the guidance in FRS 39 *Financial Instruments: Recognition and Measurement* on effective interest rate when describing the components of borrowing costs.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 23 not addressed in the exposure draft.

Question 20

Do you agree with the proposal to amend paragraph 6 of FRS 23 to refer to the guidance in FRS 39 *Financial Instruments: Recognition and Measurement* relating to effective interest rate when describing the components of borrowing costs? If not, why?

Proposed amendment to FRS 23 *Borrowing Costs*

Paragraph 6 is amended (new text is underlined, deleted text is struck through). Paragraph 29A is added.

Definitions

6 Borrowing costs may include:

- (a) interest expense calculated using the effective interest rate method as described in FRS 39 *Financial Instruments: Recognition and Measurement* ~~interest on bank overdrafts and short-term and long-term borrowings;~~
- (b) ~~[deleted] amortisation of discounts or premiums relating to borrowings;~~
- (c) ~~[deleted] amortisation of ancillary costs incurred in connection with the arrangement of borrowings;~~
- (d) finance charges in respect of finance leases recognised in accordance with FRS 17 *Leases*; and
- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Effective date

29A Paragraph 6 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply that amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Basis for Conclusions on proposed amendment to FRS 23 *Borrowing Costs*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Definitions

- BC1 It was identified a potential inconsistency in the components of borrowing costs between FRS 23 *Borrowing Costs* (as revised in 2007) and FRS 39 *Financial Instruments: Recognition and Measurement*.
- BC2 It was noted that components of borrowing costs in paragraph 6(a)–(c) of FRS 23 are broadly equivalent to the components of interest expense calculated using the effective interest method in accordance with FRS 39. The exception is in respect of ‘ancillary costs’ in paragraph 6(c), for which it was noted that there is no definition in FRSs.
- BC3 It was decided that consistency between FRSs would be improved if paragraph 6(a)–(c) of FRS 23 were replaced with a reference to interest expense calculated in accordance with the effective interest method as defined in FRS 39.

Proposed amendment to Financial Reporting Standard 27 *Consolidated and Separate Financial Statements*

Introduction and invitation to comment

Measurement of subsidiary held for sale in separate financial statements

The ASC proposes to amend FRS 27 *Consolidated and Separate Financial Statements* (as amended in 2007) to require investments in subsidiaries that are accounted for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale).

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 27 not addressed in the exposure draft.

Question 21

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with FRS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

Proposed amendment to FRS 27 *Consolidated and Separate Financial Statements* (as amended in 2007)

Paragraph 37 is amended (new text is underlined, deleted text is struck through). Paragraph 43A is added.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

37 When an entity prepares separate financial statements ~~are prepared~~, it shall account for investments in subsidiaries, jointly controlled entities and associates ~~that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FRS 105 shall be accounted for~~ either:

- (a) at cost, or
- (b) in accordance with FRS 39.

The entity shall apply the same accounting ~~shall be applied~~ for each category of investments. However, when those investments that were accounted for at cost in accordance with (a) above are classified as held for sale (or included in a disposal group classified as held for sale), the entity shall account for them in accordance with FRS 105. ~~Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FRS 105 shall be accounted for in accordance with that FRS.~~

Effective date

43A Paragraph 37 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply that amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Basis for Conclusions on proposed amendment to FRS 27 Consolidated and Separate Financial Statements

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

- BC1 It was identified an apparent inconsistency in the guidance in FRS 27 and FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* for the accounting by a parent in separate financial statements when a subsidiary that it accounts for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* is classified as held for sale in accordance with FRS 105. The guidance in FRS 27 specifies that an entity that prepares separate financial statements shall account for a subsidiary that is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FRS 105. However, FRS 105 excludes from its measurement scope financial assets that an entity accounts for in accordance with FRS 39.
- BC2 It was decided to address this inconsistency by requiring entities that account for investments in subsidiaries in accordance with FRS 39 in separate financial statements to continue to account for them on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale).
- BC3 It was required the same accounting treatment for investments in associates and jointly controlled entities in separate financial statements.
- BC4 Paragraph BC13 of the Basis for Conclusions on FRS 105 explains that it was decided that non-current assets should be excluded from the measurement scope of FRS 105 only 'if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell'. It was acknowledged in the Basis for Conclusions that not all financial assets within the scope of FRS 39 are recognised at fair value with changes in fair value recognised in profit or loss, but it did not want to make any further changes to the accounting for financial assets at that time. The draft amendment proposes to align the accounting for these investments with the accounting for other assets that are accounted for at fair value before classification as held for sale.

Proposed amendments to Financial Reporting Standard 28 *Investments in Associates*

Introduction and invitation to comment

The ASC proposes to amend FRS 28 *Investments in Associates* to deal with two matters.

Required disclosures when investments in associates are accounted for at fair value through profit or loss

The ASC proposes to amend FRS 28 to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss. The ASC proposes consequential amendments to FRS 107 *Financial Instruments: Disclosures* and FRS 32 *Financial Instruments: Presentation* in respect of this issue. The proposed consequential amendments to FRS 107 and FRS 32 are included in the respective chapters of this exposure draft.

A similar amendment is proposed in respect of the required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss. The proposed amendment to FRS 31 *Interests in Joint Ventures*, the invitation to comment and the respective basis for the ASC's proposal are included in the FRS 31 chapter in this exposure draft.

Impairment of investments in associates

The ASC proposes to amend FRS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the questions below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 28, FRS 32 and FRS 107 not addressed in the exposure draft.

Question 22

Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with FRS 39, with changes in fair value recognised in profit or loss? If not, why?

Question 23

Do you agree with the proposal to amend paragraph 33 of FRS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

Proposed amendments to FRS 28 *Investments in Associates*

Paragraphs 1 and 33 are amended (new text is underlined, deleted text is struck through). Paragraph 41A is added. Paragraphs 31 and 32 are included for ease of reference but are not proposed for amendment.

Scope

1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:

- (a) venture capital organisations, or**
- (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with FRS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall give the disclosures required by paragraph 37(f) of this Standard.

Application of the equity method

Impairment losses

- 31** After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of FRS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
- 32** The investor also applies the requirements of FRS 39 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.
- 33** Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in FRS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested ~~under~~ in accordance with FRS 36 for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in FRS 39 indicates that the investment may be impaired. Any impairment loss recognised in those circumstances is not allocated to the goodwill and other assets included in the investment in the associate. Accordingly, any reversals of those impairment losses are recognised to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:
- (a)** its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

Effective date

41A Paragraphs 1 and 33 were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Basis for Conclusions on proposed amendments to FRS 28 *Investments in Associates* and the proposed consequential amendments to FRS 32 *Financial Instruments: Presentation* and FRS 107 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Scope

- BC1 It was identified an apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in associates at fair value in accordance with FRS 39. These entities are excluded from the scope of FRS 28 and, therefore, are not required to give the disclosures that the standard would otherwise require. However, FRS 32 and FRS 107 both require entities that account for investments in associates in accordance with FRS 39 to give the disclosures required by FRS 28 in addition to the disclosures required by FRS 32 and FRS 107.
- BC2 It was decided to address this inconsistency by removing from FRS 32 and FRS 107 the general requirement to give the FRS 28 disclosures, and identifying the specific disclosures that should be given. It was also proposed to delete from FRS 32 and FRS 107 the requirement to give the disclosures in FRS 27 because this duplicates the requirement in FRS 27.

Impairment losses

- BC3 It was identified unclear guidance in FRS 28 regarding the extent to which impairment reversals should be recognised as an adjustment to the carrying amount of an investment in an associate.
- BC4 It was noted that applying the equity method involves adjusting the investor's share of impairment losses recognised by the associate on assets such as goodwill or property, plant and equipment, to take account of the acquisition date fair values of those assets. It was decided that any additional impairment recorded by the investor, after applying the equity method, should not be allocated against any goodwill included in the investment balance. Therefore such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.
- BC5 It was decided to resolve this ambiguity by clarifying that an investment in an associate is treated as a single asset for impairment testing. It also decided to specify that any impairment loss is not allocated against any goodwill or other assets included in the investment balance. Accordingly, reversals of this impairment loss should be recognised as an adjustment to the investment in the associate to the extent that the recoverable amount of the associate increases.

Alternative view on proposed amendments to FRS 28

Alternative view of Tatsumi Yamada (IASB Board member)

- AV1 Mr Yamada voted against the publication of the exposure draft of proposed amendments to FRS 28 *Investments in Associates*. His alternative view is set out below.
- AV2 Mr Yamada believes it is inappropriate not to allocate any additional impairment losses to the goodwill and other assets included in the investment in the associate. In his view, because he believes that an investor can identify attributable goodwill when it makes an investment, all impairment losses recognised against the carrying amount of an investment in an associate should be allocated to the goodwill and other assets included in the investment in the associate.
- AV3 Mr Yamada also believes that all impairment losses allocated to goodwill should not be subsequently reversed. In his view the non-allocation of impairment losses to goodwill as proposed by the amendment and the subsequent reversal of such impairment losses in substance leads to the recognition of internally generated goodwill. He believes that the proposed amendment to FRS 28 is not consistent with paragraphs 124 and 125 of FRS 36 *Impairment of Assets*, which prohibit the reversal of impairment losses related to goodwill.

Proposed amendments to Financial Reporting Standard 29 *Financial Reporting in Hyperinflationary Economies*

Introduction and invitation to comment

Consistency of terminology with other FRSs

The ASC proposes to amend FRS 29 *Financial Reporting in Hyperinflationary Economies* to update the description of historical cost financial statements in paragraph 6 and to conform terminology in FRS 29 to the equivalent defined or more widely used terms.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 29 not addressed in the exposure draft.

Question 24

Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of FRS 29 and to conform terminology in FRS 29 to the equivalent defined or more widely used terms? If not, why?

Proposed amendments to FRS 29 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 6, 8, 14, 15, 19, 20, 28 and 34 are amended (new text is underlined, deleted text is struck through).

The restatement of financial statements

- 6 Entities that prepare ~~In most countries,~~ financial statements ~~are prepared~~ on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of assets or liabilities held. The exceptions to this are those assets and liabilities that the entity is required, or chooses, to measure at fair value. For example, except to the extent that property, plant and equipment and investments may be revalued to fair value and biological assets must be measured at fair value. Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.
- 8 **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period required by FRS 1 *Presentation of Financial Statements* (as revised in 2007) and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of FRS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in 2003) apply.**

Historical cost financial statements

Statement of financial position

- 14 All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and ~~market fair~~ fair value, so they are not restated. All other non-monetary assets and liabilities are restated.
- 15 Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. ~~Hence~~ For example, property, plant and equipment, ~~investments,~~ inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.
- 19 The restated amount of a non-monetary item is reduced, in accordance with appropriate FRSs, when it exceeds its ~~the~~ recoverable ~~recoverable from the item's future use (including sale or other disposal).~~ Hence For example, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount, and restated amounts of inventories are reduced to net realisable value ~~and restated amounts of current investments are reduced to market value.~~
- 20 An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of comprehensive

income of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and ~~results of operations~~ profit or loss. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

Gain or loss on net monetary position

- 28 The gain or loss on the net monetary position is included in ~~net income~~ profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of comprehensive income.

Corresponding figures

- 34 Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of FRS 21 (~~as revised in 2003~~) apply.

Basis for Conclusions on proposed amendments to FRS 29 *Financial Reporting in Hyperinflationary Economies*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Description of financial statements and use of terminology

BC1 It was identified that the description of historical cost financial statements in paragraph 6 of FRS 29 does not reflect that there are now several examples of assets and liabilities that may or must be measured on the basis of a current value rather than a historical value. It was proposed to address this by rewording paragraph 6 to give examples rather than a definitive list of such items.

BC2 It was also identified:

- the use of the term 'market value' in FRS 29 instead of the defined term 'fair value'. It was proposed to eliminate this inconsistency by replacing the term 'market value' with 'fair value'.
- the use of the terms 'results of operations' and 'net income' in FRS 29 when other FRSs use the term 'profit or loss'. It was proposed to eliminate this inconsistency by replacing the terms 'results of operations' and 'net income' with 'profit or loss'.
- that FRS 29 refers to 'investments' as non-monetary assets carried at cost. Most investments are measured at fair value in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. Therefore, it was proposed to remove investments as an example of assets measured at cost.

It was viewed, the consistency of FRSs will be improved by changing these terms used by FRS 29 to the equivalent defined or more widely used terms.

Proposed amendment to Financial Reporting Standard 31 *Interests in Joint Ventures*

Introduction and invitation to comment

Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

The ASC proposes to amend FRS 31 *Interests in Joint Ventures* to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss. The ASC proposes consequential amendments to FRS 107 *Financial Instruments: Disclosures* and FRS 32 *Financial Instruments: Presentation* in respect of this issue. The proposed consequential amendments to FRS 107 and FRS 32 are included in the respective chapters of this exposure draft.

A similar amendment is proposed in respect of the required disclosures when investments in associates are accounted for at fair value through profit or loss. Details of the proposed amendments to FRS 28 *Investments in Associates*, the invitation to comment and the respective basis for the ASC's proposal are included in the FRS 28 chapter in this exposure draft.

The ASC invites comments on the proposed amendments. It would particularly welcome answers to the question below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 31, FRS 32 and FRS 107 not addressed in the exposure draft.

Question 25

Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with FRS 39, with changes in fair value recognised in profit or loss? If not, why?

Proposed amendment to FRS 31 *Interests in Joint Ventures*

| |
|--|
| Paragraph 1 is amended (new text is underlined). Paragraph 58A is added. |
|--|

Scope

- 1 This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:
- (a) venture capital organisations, or
 - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with FRS 39, with changes in fair value recognised in profit or loss in the period of the change. A venturer holding such an interest shall give the disclosures required by paragraphs 55 and 56 of this Standard.

Effective date

- 58A Paragraph 1 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Basis for Conclusions on proposed amendment to FRS 31 *Interests in Joint Ventures* and proposed consequential amendments to FRS 32 *Financial Instruments: Presentation* and FRS 107 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Scope

- BC1 It was identified an apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in jointly controlled entities at fair value in accordance with FRS 39. These entities are excluded from the scope of FRS 31 and, therefore, are not required to give the disclosures that the standard would otherwise require. However, FRS 32 and FRS 107 both require entities that account for investments in jointly controlled entities in accordance with FRS 39 to give the disclosures required by FRS 31 in addition to the disclosures required by FRS 32 and FRS 107.
- BC2 It was decided to address this inconsistency by removing from FRS 32 and FRS 107 the general requirement to give the FRS 31 disclosures, and identifying the specific disclosures that should be given. It was also proposed to delete from FRS 32 and FRS 107 the requirement to give the disclosures in FRS 27 because this duplicates the requirement in FRS 27.

Proposed amendment to Financial Reporting Standard 32 *Financial Instruments: Presentation*

Introduction

Consequential amendment from FRS 28 and FRS 31

Required disclosures when investments in associates and interests in jointly controlled entities are accounted for at fair value through profit or loss

The ASC proposes to amend FRS 32 *Financial Instruments: Presentation* as a consequence of its proposed amendments to FRS 28 *Investments in Associates* and FRS 31 *Interests in Joint Ventures* relating to the disclosure requirements for investments in associates and interests in joint ventures accounted for at fair value through profit or loss. The invitations to comment and the bases for the ASC's proposals are included in the FRS 28 and FRS 31 chapters in this exposure draft.

Proposed amendment to FRS 32 *Financial Instruments: Presentation*

Paragraph 4 is amended (new text is underlined, deleted text is struck through). Paragraph 97A is added.

Scope

- 4 This Standard shall be applied by all entities to all types of financial instruments except:
- (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates* or FRS 31 *Interests in Joint Ventures*. However, in some cases, FRS 27, FRS 28 or FRS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 39; in those cases, entities shall apply the requirements of the disclosure requirements in FRS 27, FRS 28 or FRS 31 in addition to these in this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

Effective date

- 97A Paragraph 4 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Proposed amendment to Financial Reporting Standard 34 *Interim Financial Reporting*

Introduction and invitation to comment

Earnings per share disclosure in interim financial reports

The ASC proposes to amend FRS 34 *Interim Financial Reporting* to require the presentation of basic and diluted earnings per share only when the entity is within the scope of FRS 33 *Earnings per Share*.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 34 not addressed in the exposure draft.

Question 26

Do you agree with the proposal to amend paragraph 11 of FRS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of FRS 33? If not, why?

Proposed amendment to FRS 34 *Interim Financial Reporting*

Paragraph 11 is amended (new text is underlined). Paragraph 47 is added.

Form and content of interim financial statements

- 11 In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of FRS 33 *Earnings per Share*.

Effective date

- 47 Paragraph 11 was amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply this amendment for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies this amendment for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Basis for Conclusions on proposed amendment to FRS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Form and content of interim financial statements

- BC1 It was identified a potentially unclear requirement of FRS 34 *Interim Financial Reporting*. Paragraph 11 of FRS 34 might be read by some as requiring the disclosure of earnings per share in an interim report even if the entity is not within the scope of FRS 33 *Earnings per Share*.
- BC2 It was decided to clarify FRS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of FRS 33.

Proposed amendments to Financial Reporting Standard 36 *Impairment of Assets*

Introduction and invitation to comment

Disclosure of estimates used to determine recoverable amount

The ASC proposes to amend FRS 36 *Impairment of Assets* to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell.

The ASC invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 36 not addressed in the exposure draft.

Question 27

Do you agree with the proposal to amend paragraph 134(e) of FRS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

Consequential amendment from FRS 41

Point-of-sale costs

The ASC also proposes to amend paragraphs 2 and 5 of FRS 36 as a consequence of its proposed amendments to FRS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'. The invitation to comment and the basis for the ASC's proposal are included in the FRS 41 chapter in this exposure draft.

Proposed amendments to FRS 36 *Impairment of Assets*

Paragraphs 2, 5 and 134(e) are amended (new text is underlined, deleted text is struck through). Paragraph 134(d) has been included for ease of reference but is not proposed for amendment. Paragraph 140A is added.

Scope

- 2 This Standard shall be applied in accounting for the impairment of all assets, other than:
- (a) ...
 - (g) **biological assets related to agricultural activity that are measured at fair value less ~~estimated point-of-sale costs~~ to sell (see FRS 41 *Agriculture*);**
 - (h) ...
- 5 This Standard does not apply to financial assets within the scope of FRS 39, investment property measured at fair value in accordance with FRS 40, or biological assets related to agricultural activity measured at fair value less ~~estimated point-of-sale costs~~ to sell in accordance with FRS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value) in accordance with other Standards, such as the revaluation model in FRS 16 *Property, Plant and Equipment*. Identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:
- (a) ...

Disclosure

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

- 134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:
- (a) ...
 - (d) **if the unit's (group of units') recoverable amount is based on value in use:**
 - (i) **a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.**
 - (ii) **a description of management's approach to determining the ~~value(s)~~ or values assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or**

external sources of information.

- (iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.
 - (iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.
 - (v) the discount rate(s) applied to the cash flow projections.
- (e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:
- (i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
 - (ii) a description of management's approach to determining the value(s) or values assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

If fair value less costs to sell is determined using discounted cash flow projections, the disclosures required by (d) shall be given instead of those in (e)(i) and (ii).

- (f) ...

Transitional provisions and effective date

140A Paragraphs 2, 5 and 134(e) were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Basis for Conclusions on proposed amendment to FRS 36 *Impairment of Assets*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Disclosure

- BC1 It was identified an apparent inconsistency in the disclosure requirements in FRS 36.
- BC2 It was noted that the disclosures that FRS 36 requires when value in use is used to determine recoverable amount differ significantly from those required when fair value less costs to sell is used. These differing requirements appear inconsistent for those occasions when a similar valuation methodology (discounted cash flows) has been used.
- BC3 It was decided to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate fair value less costs to sell.

Proposed amendments to Financial Reporting Standard 38 *Intangible Assets*

Introduction and invitation to comment

The ASC proposes to amend FRS 38 *Intangible Assets* to deal with two matters.

Advertising and promotional activities

FRS 38 requires expenditure on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganising part or all of an entity, to be recognised as an expense as incurred. Divergent interpretations have developed about when such expenses are incurred. This proposed amendment clarifies the meaning of 'as incurred' in this context. It also makes clear that an entity may recognise a prepayment for goods or services as an asset only until that entity has access to the goods or has received the services.

Unit of production method of amortisation

The ASC also proposes to amend FRS 38 by removing the last sentence of paragraph 98 which states:

'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.'

The ASC has been informed that in practice the words 'rarely, if ever' in paragraph 98 are interpreted as 'never'. The project by the ASC on service concessions highlighted situations where using the unit of production method of amortisation would be appropriate. However, where the expected pattern of consumption of the future economic benefits in the asset is weighted to the end of the asset's life, paragraph 98 is perceived as restricting an operator from using this method. The ASC proposes an amendment to FRS 38 to resolve the issue.

The ASC invites comments on the proposed amendments to FRS 38. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 38 not addressed in the exposure draft.

Question 28(a)

Do you agree that FRS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Question 28(b)

Do you agree that paragraph 70 of FRS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Question 29

Do you agree with the proposal to remove the last sentence of paragraph 98 of FRS 38 regarding the amortisation method used for intangible assets? If not, why?

Proposed amendments to FRS 38 *Intangible Assets*

Paragraphs 69, 70 and 98 are amended (new text is underlined, deleted text is struck through). Paragraph 68 has been included for ease of reference but is not proposed for amendment. Paragraph 130B is added.

Recognition of an expense

- 68 Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:**
- (a) it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18–67); or**
 - (b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of the business combination) shall form part of the amount attributed to goodwill at the acquisition date (see FRS 103).**
- 69** In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, of the supply of goods, the entity recognises such expenditure ~~is recognised~~ as an expense when ~~it is incurred, it has access to those goods.~~ In the case of the supply of services, the entity recognises such expenditure as an expense when it receives those services. For example, except when it forms part of the cost of a business combination, expenditure on research is recognised as an expense when it is incurred (see paragraph 54). Other examples of expenditure that is recognised as an expense when it is incurred include:
- (a) expenditure on start-up activities (ie start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with FRS 16. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs).
 - (b) expenditure on training activities.
 - (c) expenditure on advertising and promotional activities.
 - (d) expenditure on relocating or reorganising part or all of an entity.
- 70** Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the entity gaining access to those goods, delivery of goods or the rendering of services. Similarly, paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.
- 98** A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. ~~There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful~~

~~lives that results in a lower amount of accumulated amortisation than under the straight line method.~~

Transitional provisions and effective date

130B Paragraphs 69, 70 and 98 were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and apply:

- (a) the amendments to other FRSs introduced by the first annual improvements project; and
- (b) FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Basis for Conclusions on proposed amendments to FRS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

BC1 This Basis for Conclusions summarises the considerations in proposing amendments to FRS 38 *Intangible Assets*.

Recognition of an expense

BC2 FRS 38 paragraph 68 states that expenditure on an intangible item shall be recognised as an expense when it is incurred. It was noted that it was unclear how this should be interpreted. For example, some believed that an entity should recognise expenditure on advertising and promotional activities as an expense when it received the goods or services that it would use to develop or communicate the advertisement or promotion. Others believed that an entity should recognise an expense when the advertisement or promotion was delivered to its customers or potential customers. Therefore, it was decided to amend paragraph 69 of FRS 38 to clarify the meaning of 'incurred'.

BC3 It was noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets. It was concluded that it would be inconsistent for an entity to recognise an asset in respect of an advertisement that it had not yet published if the economic benefits that might flow to the entity as a result of that advertisement are the same as those that might flow to the entity as a result of the brand or customer relationship that it would enhance or create. Therefore it was concluded that an entity should not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities.

BC4 In reaching this conclusion it was noted that, if an entity pays for advertising goods or services in advance and the other party has not yet provided those goods or services, the entity has a different asset. That asset is the right to receive those goods and services. Therefore, it was decided to retain paragraph 70 of FRS 38, which allows an entity to recognise as an asset the right to receive those goods or services. However, it was not believed that this paragraph should be used as a justification for recognising an asset beyond the point at which the entity gained access to the related goods or received the related services. Therefore it was decided to amend the paragraph to make clear that a prepayment may be recognised by an entity only until that entity has access to the related goods or has received the related services.

Intangible assets with finite useful lives

BC5 In some service concession arrangements, an intangible asset for the right to charge users for public services is created. Paragraph 98 is perceived as preventing an operator from using the unit of production method to amortise these assets if it results in a lower amount of accumulated amortisation than under the straight-line method. However, this can be inconsistent with the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Therefore, it was proposed to amend paragraph 98 to make it clear that entities may use the unit of production method of amortisation even when it results in a lower amount of accumulated amortisation than does the straight-line method.

Alternative view on proposed amendments to FRS 38

Alternative view of James J Leisenring (IASB Board member)

- AV1 Mr Leisenring voted against the publication of the exposure draft of proposed amendments to FRS 38 *Intangible Assets*. His alternative view is set out below.
- AV2 Mr Leisenring believes that the Board's proposed amendments would introduce a logical flaw into FRS 38. Paragraph 68 states that 'expenditure on an intangible item shall be recognised as an expense when it is incurred unless' specific conditions apply. The proposed amendment to paragraph 69 includes guidance on the accounting for expenditure on the supply of goods. In his view, such expenditure is, by its nature, expenditure on a tangible rather than an intangible item and therefore the proposed amendment to paragraph 69 is inconsistent with paragraph 68.
- AV3 Mr Leisenring believes that if an entity acquires goods such as catalogues, film strips or other materials, the entity should determine whether those goods meet the definition of an asset. In his view, FRS 38 is not relevant for determining whether goods acquired by an entity and which may be used for advertising should be recognised as an asset.
- AV4 Mr Leisenring agrees that the potential benefit that might result from having advertised should not be recognised as an intangible asset in accordance with FRS 38. However, he does not believe that FRS 38 should be used to determine whether an entity may recognise as an asset goods that may be used for advertising.

Proposed amendments to Financial Reporting Standard 39 *Financial Instruments: Recognition and Measurement*

Introduction and invitation to comment

The ASC proposes the following amendments to FRS 39 *Financial Instruments: Recognition and Measurement*.

Definition of a derivative

The ASC proposes to amend the definition of a derivative. The definition in FRS 39 excludes contracts linked to non-financial variables that are specific to a party to the contract. The proposed amendment would remove that exclusion. As a result, contracts linked to non-financial variables specific to a party to a contract within the scope of FRS 39 would be classified as derivatives.

Reclassification of financial instruments into or out of the classification of at fair value through profit or loss

The ASC proposes to clarify in what circumstances specific financial instruments start or cease to be accounted for at fair value through profit or loss.

Designating and documenting hedges at the segment level

The ASC proposes to remove the apparent conflict between paragraph 73 and the requirements of FRS 108 *Operating Segments*.

Applicable effective interest rate on cessation of fair value hedge accounting

The ASC proposes to clarify that the effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 should be used to remeasure the hedged item when paragraph AG8 applies.

Treating loan prepayment penalties as closely related embedded derivatives

The ASC proposes to remove an inconsistency between paragraphs AG30(g) and AG33(a) with respect to embedded prepayment options. The proposed amendment clarifies that prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract.

The ASC invites comments on the proposed amendments to FRS 39. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 39 not addressed in the exposure draft.

Question 30

Do you agree with the proposal to amend FRS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

Question 31(a)

Do you agree with the proposal to amend FRS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

Question 31(b)

Do you agree with the proposal to insert in FRS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

Question 32

Do you agree with the proposal to amend paragraph 73 of FRS 39 to remove the references to segments and segment reporting? If not, why?

Question 33

Do you agree with the proposal to amend paragraph AG8 of FRS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?

Question 34

Do you agree with the proposal to amend paragraph AG30(g) of FRS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

Proposed amendments to FRS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 9, 10, 73, AG8 and AG30 are amended and paragraph AG12A is deleted (new text is underlined, deleted text is struck through). Paragraphs 50A and 108C are added. Paragraph 50 is reproduced for ease of reference, but is not proposed for amendment.

9 The following terms are used in this Standard with the meanings specified:

Definition of a derivative

A *derivative* is a ~~financial instrument or other~~ contract within the scope of this Standard (see paragraphs 2–7) with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, ~~provided in the case of a non financial variable that the variable is not specific to a party to the contract~~ (sometimes called the ‘underlying’);
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

Definitions of four categories of financial instruments

A *financial asset or financial liability at fair value through profit or loss* is a financial asset or financial liability that meets either of the following conditions.

- (a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if ~~it is~~:
 - (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
 - (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- (b) ...

Embedded derivatives

- 10 An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign

exchange rate, index of prices or rates, credit rating or credit index, or other variable, ~~provided in the case of a non-financial variable that the variable is not specific to a party to the contract.~~ A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Measurement

Reclassifications

50 An entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:

- (a) a derivative that was previously a designated and effective hedging instrument no longer qualifies as such;
- (b) a derivative becomes a designated and effective hedging instrument.

Hedging

Hedging instruments

Qualifying instruments

73 For hedge accounting purposes, only instruments that involve a party external to the reporting entity (ie external to the group, ~~segment~~ or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group ~~or in segment reporting~~ provided that they are external to the individual entity ~~or segment~~ that is being reported on.

Effective date and transition

108C Paragraph AG12A was deleted, paragraphs 9, 10, 73, AG8 and AG30 were amended and paragraph 50A was added in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:

- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)

for that earlier period.

Appendix A

Application guidance

Definitions

Effective interest rate

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised as income or expense in profit or loss.

Derivatives

AG12A ~~[Deleted] The definition of a derivative refers to non financial variables that are not specific to a party to the contract. These include an index of earthquake losses in a particular region and an index of temperatures in a particular city. Non financial variables specific to a party to the contract include the occurrence or non-occurrence of a fire that damages or destroys an asset of a party to the contract. A change in the fair value of a non financial asset is specific to the owner if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific non financial asset held (a non financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, the change in that residual value is specific to the owner of the car.~~

Embedded derivatives (paragraphs 10–13)

AG30 The economic characteristics and risks of an embedded derivative are not closely related to the host contract (paragraph 11(a)) in the following examples. In these examples, assuming the conditions in paragraph 11(b) and (c) are met, an entity accounts for the embedded derivative separately from the host contract.

(a) ...

(g) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract. From the perspective of the issuer of a convertible debt instrument with an embedded call or put option feature, the assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element under FRS 32. However, a prepayment option for which the exercise price compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), is closely related to the host debt contract.

...

Basis for Conclusions on proposed amendments to FRS 39 *Financial Instruments: Recognition and Measurement*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Definition of a derivative Reclassification

- BC1 The definition of a derivative in FRS 39 *Financial Instruments: Recognition and Measurement* excludes contracts whose values change in response to a non-financial variable that is specific to a party to the contract. This exclusion was introduced when FRS 104 *Insurance Contracts* was issued to exclude from the scope of FRS 39 contracts within the scope of FRS 104. Since then, the International Financial Reporting Interpretations Committee (IFRIC) has informed the IASB that it has received representations that the revised wording is creating diversity in practice because in some situations it is unclear whether contracts within the scope of FRS 39 meet the definition of a derivative.
- BC2 In order to determine whether a contract within the scope of FRS 39 is a derivative, an entity needs to assess (among other things) whether the value of the contract changes in response to a non-financial variable that is specific to a party to the contract. If it does, the contract is not a derivative. On reconsidering the matter, however, it was concluded that this condition is unnecessary in determining whether a contract within the scope of FRS 39 is a derivative. Therefore, in response to a request from the IFRIC it was proposed to remove the exclusion relating to non-financial variables that are specific to a party to the contract.
- BC3 It was observed that the proposed amendment would not affect the scope of FRS 39, because contracts within the scope of FRS 104 are excluded from FRS 39 by paragraph 2(e) of FRS 39.
- BC4 The definition of financial risk in FRS 104 mirrors the definition of a derivative in FRS 39. It was not proposed to change the definition of financial risk to remove the reference to non-financial variables. This is because the distinction is relevant in determining whether a contract is an insurance contract.

Reclassification

- BC5 The definition of a financial asset or financial liability at fair value through profit or loss excludes derivatives that are designated and effective hedging instruments. Paragraph 50 of FRS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The prohibition from reclassification in paragraph 50 might be read by some as preventing a derivative financial instrument that becomes a designated and effective hedging instrument from being excluded from the at fair value through profit or loss category in accordance with the definition. Similarly it might be read as preventing a derivative that ceases to be a designated and effective hedging instrument from being accounted for at fair value through profit or loss.
- BC6 It was decided that the prohibition on reclassification in paragraph 50 should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa. Therefore, it was decided to include an additional paragraph in FRS 39 to address this point. It was also taken the opportunity to amend the definition of the category of financial asset or financial liability at fair value through profit or loss to specify that a non-derivative financial instrument that is traded as part of a portfolio can qualify for the trading classification only if it is included in such a portfolio on initial recognition.

Segment reporting

- BC7 Paragraph 73 of FRS 39 refers to the need for hedging instruments to involve a party external to the reporting entity. In doing so, it uses a segment as an example of a reporting entity. FRS 108 *Operating Segments* requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-FRS basis. Therefore, the two FRSs appear to conflict. It was proposed to remove from paragraph 73 references to the designation of hedging instruments at the segment level.

Effective interest rate

- BC8 It was identified an apparent inconsistency in the guidance in FRS 39. It relates to whether the revised or the original effective interest rate of a debt instrument should be applied when remeasuring the instrument's carrying amount on the cessation of fair value hedge accounting. A revised effective interest rate is calculated when fair value hedge accounting ceases.
- BC9 It was decided to remove this inconsistency by clarifying that the remeasurement of an instrument in accordance with paragraph AG8 is based on the revised effective interest rate calculated in accordance with paragraph 92, when applicable, rather than the original effective interest rate.

Embedded derivatives

- BC10 It was identified an apparent inconsistency in the guidance in FRS 39. It relates to embedded prepayment options in which the exercise price represents a penalty for early repayment (ie prepayment) of the loan. The inconsistency relates to whether these are considered closely related to the loan.
- BC11 It was decided to remove this inconsistency by amending paragraph AG30(g). The proposed amendment makes an exception to the examples in paragraph AG30(g) of embedded derivatives that are not closely related to the underlying. This exception is in respect of prepayment options, the exercise prices of which compensate the lender for the loss of interest income because the loan was prepaid. This exception is conditional on the exercise price compensating the lender for loss of interest by reducing the economic loss from reinvestment risk.

Proposed amendments to Financial Reporting Standard 40 *Investment Property*

Introduction and invitation to comment

The ASC proposes to amend FRS 40 *Investment Property* to deal with three issues.

Property under construction or development for future use as investment property

The ASC proposes to remove an inconsistency within FRS 40. At present, if an existing investment property is redeveloped, the property is accounted for using FRS 40. However, if a property is purchased for the purpose of constructing or developing a future investment property, the property is within the scope of FRS 16 *Property, Plant and Equipment* until it is complete.

The ASC proposes to remove from the scope of FRS 16 property under construction or development for future use as an investment property and to include it within the scope of FRS 40. As part of these amendments, such property will be within the definition of investment property. As a result, where an entity uses the fair value model in FRS 40, changes in the fair value of such property will be included in the statement of comprehensive income. The ASC proposes consequential amendments to FRS 16 in respect of this issue. The proposed consequential amendments to FRS 16 are included in the FRS 16 chapter of this exposure draft.

Consistency of terminology with FRS 8

The ASC proposes to amend paragraph 31 of FRS 40 to ensure consistency with the text of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Investment property held under lease

The ASC proposes to amend FRS 40 to make clear how an investment property under lease should be recorded.

The ASC invites comments on the changes to FRS 40 proposed in this exposure draft. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 40 and FRS 16 not addressed in the exposure draft.

Question 35

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of FRS 40. Do you agree with the proposal? If not, why?

Question 36

Do you agree with the proposal to conform terminology used in paragraph 31 of FRS 40 to the terminology used in FRS 8? If not, why?

Question 37

Should paragraph 50(d) of FRS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

Proposed amendments to FRS 40 *Investment Property*

Paragraphs 8, 9, 31, 48, 50(d), 53 and 57 are amended (new text is underlined, deleted text is struck through). Paragraph 22 is deleted. Paragraph 85A is added.

Definitions

8 The following are examples of investment property:

(a) ...

(e) property that is being constructed or developed for future use as investment property.

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) ...

(b) ~~[deleted] property that is being constructed or developed for future use as investment property. FRS 16 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard applies to existing investment property that is being redeveloped for continued future use as investment property (see paragraph 58).~~

(e) ...

Measurement at recognition

22 ~~[Deleted] The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies FRS 16. At that date, the property becomes investment property and this Standard applies (see paragraphs 57(e) and 65).~~

Measurement after recognition

Accounting policy

31 FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows will result in a more appropriate presentation of transactions, other events or conditions in the entity's financial statements. It is highly unlikely that a change from the fair value model to the cost model will result in a more ~~appropriate~~ relevant presentation.

Fair value model

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property ~~following the completion of construction or development, or~~ after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so

difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 53).

50 In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

- (a) ...
- (d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the fair value carrying amount of the investment property using the fair value model ~~for accounting purposes~~.

Inability to determine fair value reliably

53 **There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in FRS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply FRS 16 until disposal of the investment property.**

Transfers

57 **Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:**

- (a) ...
- (c) **end of owner-occupation, for a transfer from owner-occupied property to investment property; or**
- (d) **commencement of an operating lease to another party, for a transfer from inventories to investment property; ~~or~~.**
- (e) ~~[deleted] end of construction or development, for a transfer from property in the course of construction or development (covered by FRS 16) to investment property.~~

Effective date

85A Paragraph 22 was deleted and paragraphs 8, 9, 31, 48, 50(d), 53 and 57 were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:

- (a) **apply the amendments to other FRSs introduced by the first annual improvements**

project; and

- (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007) for that earlier period.

Basis for Conclusions on proposed amendments to FRS 40 *Investment Property*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Property being constructed or developed for future use as an investment property

- BC1 It was noted that it was originally proposed to include property being constructed or developed for future use as an investment property in the scope of FRS 40 *Investment Property*. However, as a result of comments received on its exposure draft, it was decided to include it within the scope of FRS 16 *Property, Plant and Equipment*. This was because of concerns about the difficulties of reliably estimating fair values of such property. However, since FRS 40 was issued, these concerns have lessened significantly as the use of fair values has become more widespread and valuation techniques have become more robust.
- BC2 In addition, there was concerned about the inconsistency of the accounting for the redevelopment of an existing investment property and the construction or development of a future investment property. For these reasons, it was proposed to include both properties within the scope of FRS 40.

Fair value of investment property held under a lease

- BC3 Paragraph 50(d) states that, if a valuation obtained for an investment property is net of all payments expected to be made, the fair value of the investment property held under a lease is determined for accounting purposes by adding back any separately recognised lease liability. It was considered this statement was misleading because it implied that the fair value of an investment property asset held under a lease was equal to the net fair value plus the carrying amount of any recognised lease liability. Therefore, it was proposed to amend paragraph 50(d) to clarify the intended meaning.

Proposed amendments to Financial Reporting Standard 41 *Agriculture*

Introduction and invitation to comment

The ASC proposes amendments to FRS 41 *Agriculture*.

Point-of-sale costs

FRS 41 requires a biological asset to be measured at its fair value less estimated point-of-sale costs unless its fair value cannot be measured reliably. The term 'point-of-sale costs' is not used in other FRSs. The ASC proposes to replace 'point-of-sale costs' with 'costs to sell'. This amendment would make FRS 41 consistent with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and FRS 36 *Impairment of Assets*. The ASC proposes consequential amendments to FRS 105, FRS 2 *Inventories* and FRS 36 in respect of this issue. The proposed consequential amendments to FRS 105, FRS 2 and FRS 36 are included in the respective chapters of this exposure draft.

Discount rate for fair value calculations

The ASC also proposes to remove a requirement that the discount rate used to determine fair value should be a pre-tax rate. The proposed amendment requires a current market-determined rate to be used but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.

Additional biological transformation

The ASC also proposes to remove the prohibition on taking 'additional biological transformation' into consideration when calculating fair value using discounted cash flows.

Minor wording improvements: examples of agricultural produce and products

The ASC also proposes to revise the examples of agricultural produce and products that are the result of processing after harvest.

The ASC invites comments on the proposed amendments to FRS 41. It would particularly welcome answers to the questions below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The ASC is not requesting comments on matters in FRS 41 not addressed in the exposure draft.

Question 38

Do you agree with the proposal to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in FRS 41 with 'costs to sell'? If not, why?

Question 39

Do you agree with the proposed amendment to FRS 41 to permit either a pre-tax or a post-tax discount

rate to be used according to the valuation methodology used to determine fair value? If not, why?

Question 40

Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of FRS 41? If not, why?

Question 41

Do you agree with the proposed amendments to the examples in paragraph 4 of FRS 41? If not, why?

Consequential amendment from FRS 20: consistency of terminology with other FRSs

The ASC also proposes to amend FRS 41 as a consequence of its proposed amendments to FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* relating to the updating of the terminology used in FRS 20. The invitation to comment and the basis for the ASC's proposal are included in the FRS 20 chapter in this exposure draft.

Proposed amendments to FRS 41 *Agriculture*

Paragraphs IN6, 4, 5, 17, 20, 21 and 34–36 are amended (new text is underlined, deleted text is struck through). Paragraph 14 is deleted. Paragraphs 18 and 19 are reproduced for ease of reference but are not proposed for amendment. Paragraph 58A is added.

The term 'estimated point-of-sale costs' is replaced by 'costs to sell' where it appears as follows:

Introduction (paragraphs IN2–IN6)

Standard (paragraphs 12,13, 26–28, 30–32, 34, 35, 38, 40, 48, 50 and 51)

Appendix (paragraph A1 and Illustrative Examples 1 and 2)

- IN6 FRS 41 requires ~~that~~ an unconditional government grant related to a biological asset measured at its fair value less ~~estimated point-of-sale costs~~ to sell to be recognised in profit or loss as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including ~~when~~ a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant in profit or loss as income when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, the entity applies FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* ~~is applied~~.

Scope

- 4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

| Biological assets | Agricultural produce | Products that are the result of processing after harvest |
|------------------------------|--------------------------|--|
| ... | | |
| Trees in a plantation forest | Logs <u>Felled trees</u> | <u>Logs</u> , lumber |
| ... | | |

Definitions

Agriculture-related definitions

- 5 The following terms are used in this Standard with the meanings specified:

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

...

Biological transformation comprises the processes of growth, degeneration, production, and procreation and harvest that cause qualitative or quantitative changes in a biological asset.

...

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Recognition and measurement

- 14 ~~[Deleted] Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.~~
- 17 If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.
- 18 If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
- (a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
 - (b) market prices for similar assets with adjustment to reflect differences; and
 - (c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.
- 19 In some cases, the information sources listed in paragraph 18 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- 20 In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined ~~pre-tax~~ rate in determining fair value.
- 21 The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. ~~The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.~~
- 22 An entity does not include any cash flows for financing the assets, ~~taxation~~, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

Government grants

- 34 **An unconditional government grant related to a biological asset measured at its fair value**

~~less estimated point-of-sale costs~~ costs to sell shall be recognised in profit or loss as income when, and only when, the government grant becomes receivable.

- 35 If a government grant related to a biological asset measured at its fair value ~~less estimated point-of-sale costs~~ costs to sell is conditional, including ~~where~~ a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss as income when, and only when, the conditions attaching to the government grant are met.
- 36 Terms and conditions of government grants vary. For example, a ~~government~~ grant may require an entity to farm in a particular location for five years and require the entity to return all of the ~~government~~ grant if it farms for ~~less a period shorter~~ than five years. In this case, the ~~government~~ grant is not recognised in profit or loss as income until the five years have passed. However, if the terms of the government grant allows part of ~~it the government grant~~ to be retained according to the time that has elapsed based on the passage of time, the entity recognises that part in profit or loss ~~the government grant as income on a time proportion basis~~ as time passes.

Effective date

- 58A Paragraph 14 was deleted and paragraphs 4, 5, 12, 13, 17, 20, 21, 26–28, 30–32, 34–36, 38, 40, 48, 50 and 51 were amended in [Month] 2008 as part of the first annual improvements project. An entity shall apply these amendments for annual periods beginning on or after [1 January 2009]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and:
- (a) apply the amendments to other FRSs introduced by the first annual improvements project; and
 - (b) apply FRS 1 *Presentation of Financial Statements* (as revised in 2007)
- for that earlier period.

Basis for Conclusions on proposed amendments to FRS 41 *Agriculture*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

BC1 This Basis for Conclusions summarises the considerations in proposing amendments to FRS 41 *Agriculture*.

Scope

BC2 It was identified that one of the examples of agricultural produce in the table in paragraph 4 of FRS 41 is presented incorrectly. 'Logs' is an example of produce that has been processed rather than an example of unprocessed produce.

BC3 Therefore, it was decided to amend the table.

BC4 FRS 41 uses the term 'point-of-sale costs'. This term is not used elsewhere in FRSs. The term 'costs to sell' is used in FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and FRS 36 *Impairment of Assets*. It was decided that 'point-of-sale costs' and 'costs to sell' mean the same thing in the context of FRS 41. The word 'incremental' in the definition of 'costs to sell' excludes costs included in the fair value measurement of a biological asset such as transport costs. Therefore, both terms relate to transaction costs arising at the point of sale.

BC5 It was proposed to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell' to make FRS 41 consistent with FRS 105 and FRS 36. This will assist users in their understanding of FRSs by providing greater consistency in the defined terms used.

Additional biological transformation

BC6 FRS 41 requires biological assets to be measured at fair value. In some circumstances, these fair values are measured using discounted cash flows. Paragraph 21 of FRS 41 excludes from such calculations increases in cash flows arising from 'additional biological transformation'. There is diversity in practice resulting from different interpretations of this requirement. The view is that not including these cash flows would result in a carrying amount that is not representative of the asset's fair value. It was noted that the entity should consider the risks associated with cash flows from 'additional biological transformation' in determining the discount rate. Therefore, it was proposed to amend FRS 41 to remove the perceived prohibition on an entity taking into account the cash flows resulting from 'additional biological transformation' when estimating the fair value of a biological asset.

Recognition and measurement

BC7 FRS 41 paragraph 20 required entities to use a pre-tax discount rate when measuring fair value. It was noted that a fair value measurement should take into account the attributes, including tax attributes, that a market participant would consider when pricing an asset or liability.

BC8 A willing buyer would factor into the amount that it would be willing to pay the seller to acquire an asset (or would receive to assume a liability) all incremental cash flows that would benefit that buyer. Those incremental cash flows would be reduced by expected income tax payments using appropriate tax rates (ie the tax rate of a market participant buyer). Accordingly, fair value takes into account future income taxes that a market participant purchasing the asset (or assuming the liability) would be expected to pay (or to receive), without regard to an entity's specific tax situation.

BC9 Therefore, it was decided to keep the requirement to use a current market-based discount rate but removed the reference to a pre-tax discount rate in paragraph 20. It was also decided to delete the reference to taxation in paragraph 22.